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a quarterly journal of
PLANNING, HOUSING & PUBLIC UTILITIES



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Paul S. Taylor

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Problems: Background and Setting

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Also

BOOK REVIEWS AND OTHER TIMELY ARTICLES

VOLUME XXVII, NUMBER 3

AUGUST 1951

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Perspective on Housing Migratory Agricultural Laborers

By PAUL S. TAYLOR*

WITHIN a space of four months two official reports have turned spotlights again on problems arising from the use of migratory laborers by agricultural employers. On December 15, 1950 a Committee appointed by the Governor of California issued a report on Agricultural Labor in the San Joaquin Valley and on March 26, 1951 the President's Commission on Migratory Labor transmitted its findings and recommendations on the national scene.¹ These are but the latest of a long series of official and unofficial commentaries on an old problem that possibly may now have reached its ultimate maximum numerical dimensions.

The interest of federal and state governments has not been limited to observation and comment, but has included action as well. The State of California, for example, embarked on a consistent program of inspection of the

camps of migratory laborers in 1913; and the federal government began the first federal public housing projects for migrants by constructing two camps in California in 1935 with the cooperation of Kern County and the city of Marysville. It seems appropriate now to review the migratory labor situation of the United States in historical perspective and with special attention to one of its more important aspects—housing. The present article is neither a summarization of the reports of the President's and Governor's Commissions, nor a substitute for reading them: it does not pretend the same coverage, even on the subject of housing.

The use of migrant labor depends upon crop specialization extending production within an area beyond the capacity of either farmers or local communities to supply workers for peak seasonal requirements in sufficient numbers, at the wages and conditions offered. It is not simply a matter of mobilizing hands to tend growing crops during brief seasons. For the

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¹ See Reports and Comments section, this journal, for a commentary on the work of this Commission and its Report, by Erven J. Long.

use of migrants is complicated by the scale of farm enterprise—whether large and perhaps corporate, or small and family-operated—by the demands of agricultural employers for laborers willing or obliged to move and accept the particular wages and conditions the employers feel willing and able to offer, by the availability of laborers of such kind and condition, and by the willingness of government to intervene by regulating the numbers and conditions of the laborers.

The President's Commission put bluntly the greater influence of social than of crop conditions in producing the existing situation by saying: "We depend on misfortune to build up our force of migratory workers and when the supply is low because there is not enough misfortune at home, we rely on misfortune abroad to replenish the supply." The Commission pointed out that about 2 percent of the farms of the Nation, producing about 7 percent of the crops, by value, employ nearly all the migratory laborers.

Migratory laborers made annual appearances in numbers large enough to be noticed as a group with common characteristics as early as the first decades of the nineteenth century. They were used first in the hay harvests of New England and New York and came from Canada. Later, from the middle of the century, migrant laborers became conspicuous in the commercial grain harvests that developed in the Upper Mississippi Valley and also in the Valley of California. Commercial fruit culture in the East and in California produced migrant harvesters by about the end of the third quarter of the century. Sugar beet culture, expanding from the first decade of the twentieth century, drew an annual tide of migrants from as far south as central Mexico to areas of specialization located as far north as Montana and

Michigan. Commercial vegetable production has become a principal user of migratory labor since World War I; mainly in states along the southwestern rim of the country and from Florida northward along the Atlantic Coast. The tobacco crop of the Connecticut Valley has long drawn laborers from the South. Cranberries have attracted migrants to Cape Cod, New Jersey, Wisconsin and Oregon until recently. Now machine harvesting is beginning to replace the migrants. From central Texas to California the cotton harvest depends mainly on migrants who come annually from as far eastward as eastern Arkansas and southeast Missouri. The berry harvests of Florida attract migrants from as far west as these same areas. In spots here and there over the country—in New Jersey, Florida, Louisiana, the Mississippi Valley, the Pacific Northwest—berry harvests draw large numbers of migrants. These are but conspicuous examples.

To place a figure on the number of workers who migrate for seasonal agricultural employment is difficult, not only because enumeration is impossible, but because fluctuations are great from year to year. The writer estimated in the middle thirties that from 200,000 to 350,000 were following migratory labor as a regular occupation. In any particular year the number engaged in seasonal work requiring migration can reach double the number of the preceding year, as a result of crop expansion and on contracted local labor supplies. Or it may drop to one-half if conditions are reversed. Government estimates beginning in the late thirties have been larger than those for earlier years, and properly so. The Tolán Committee estimated between 900,000 and 1,250,000 for 1939-40. In 1945 Louis J. Ducoff, of the Bureau of Agricultural Economics,

estimated between a half million and a million, and in 1949 one million. The President's Commission estimated a million domestic migrant workers in 1940 and again in 1950, with as low as 600,000 during part of World War II. Fewer migrants, each working more weeks, were accomplishing more. Of the million in 1950, however, only about half were domestic workers, and the remainder foreign. Up to 400,000 of the foreign migrants were illegal Mexican entrants, or "wet-backs."

The volume of seasonal migration is augmented by mechanization of ground preparation, planting, and cultivation, without concurrent mechanization of harvesting. If subsequently the final processes of production become mechanized, the migrant labor demand declines. Thus combine harvesters in wheat, mechanical pickers for cotton, and mechanical sugar beet and cranberry harvesters have reduced the need for migrants for those crops. Semi-mechanization of fruit-tree pruning and of citrus picking is expected soon. This prospect of further mechanization suggests that the number of migrants may have reached its zenith.

During the second half of the nineteenth century, in communities where the family farm predominated, migrant workers travelling singly were admitted customarily to the shelter of the farmer's home, or perhaps provided with blankets to sleep in the hay if the home was crowded or the migrants numerous. On the great bonanza wheat farms of the Red River Valley in the early 1870's, large barracks were built. On smaller wheat farms, barns and strawstacks and the great outdoors were used. In California, where wheat was being raised on farms of vast scale, the earlier California custom (of the independent miners who carried their own blankets) was

adopted for travelling agricultural laborers. A description of Chinese wheat harvesters in California in 1868 refers to "poor John" who "spreads a dirty tent in some corner of the field near water, sleeps on the ground, works by starlight, and lives on rice of his own cooking." A description of peach pickers' shelter on the Eastern Shore in 1881 says that "in some orchards regular sheds are erected with berths in them, and in other cases barn lofts and other outbuildings are used for sleeping in."

A number of factors condition the provision of housing for migrants, whether by employers or by anyone else. The problem is affected by weather prevalent during the harvest season—whether mild or severe; by duration of the harvest—whether short or long; by family composition of the migrants—whether they travel singly or in family groups; by their customary standard of living; by their nationalities, particularly as each nationality group tends to have its characteristic family composition and living standard; by the characteristic of the employer—whether family farmer, large employer, or even corporation-employer with operations extending over many states; by prevailing mode of transportation—whether by train, truck or automobile.

These conditioning factors occur in varying combinations in different crop areas, so that correlation between any single factor and the nature of the prevailing housing cannot be depended upon. But these factors do affect the nature of the housing, and they influence the decisions as to whether shelter is to be provided by employers or by the migrants themselves.

The extent to which employers provide housing for migrants varies greatly. The shorter the season of employment on each farm, the less likely is the farmer to make any provision for housing be-

yond a site near water, with perhaps fuel and sanitary facilities. The warmer the weather and the less the hazard of rain, the more likely this is to be so. For example around Corpus Christi, Texas, where the weather during cotton harvest is hot, but rain frequent and farms large, cabins are customary. On family farms, shelter generally has been provided in the farmers' homes if migrants hired number but one or two; however this practice is of declining importance. Larger employers are more likely than family farmers to provide camps; these usually include shelter under tentage or in cabins.

The longer the season the more likely the employer is to provide shelter. Thus cabins are provided commonly in sugar beet and in western cotton areas, where the season lasts for months. On northern berry, fruit and vegetable farms cabins are frequently provided, not because the season is long or the farms very large, but because of inclement weather.

Beet sugar factories often have taken initiative to promote better housing for beet workers on farms which grow the beets the factories process. They have done so in part because their responsibility for recruiting seasonal workers has made them more immediately sensitive than individual beet growers to the deterrent effects of poor housing upon efforts to secure recruits. Their efforts have included also financing of lots and the cheap provision of construction materials to laborers, motivated largely by desire to retain workers in the beet-growing area over the winter, so as to eliminate the recurrent long and expensive seasonal migrations in spring and fall between, say, Montana, Colorado, or Michigan beet fields, and New Mexico or Texas sources of laborers.

Employers have been generally more ready to provide housing for migrant

singles than for families. The reasons have included both cost and the preference of singles to have board provided. In sugar beet production, however, the long season of work and inclemency of weather have been overriding considerations making it the rule for employers, including family farmers, in the mountain and middle western states, to provide special housing for even one or two families.

The lower the customary standard of living of the migrants—i.e., the less demanding they are—the poorer the housing usually provided them. This is one reason why agricultural employers have welcomed a long succession of low-standard immigrant nationalities from Chinese to Mexicans. An added attraction for employers in this respect is that many of these nationalities, notably Chinese and Filipinos, came as singles, not families.

The citrus industry of southern California generally has provided better than average housing for the families of Mexicans. The industry is usually prosperous, the season is long—more than half the year—and labor housing is handled by sizeable marketing associations rather than by individual growers. For many workers this housing becomes a permanent, rather than a seasonal home, which they may leave temporarily for seasonal work in another area.

Beginning with the early 1920's, improved highways and increased use of automobiles by migrants have increased the proportion of migration which takes place in family groups. Expansion of acreages devoted to cotton, beet, vegetable and fruit production has also increased greatly the amount of employment of a type in which all members of the family can find work.

Coincident with this growth of seasonal migration by families, at least three important developments in housing have

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occurred. (1) Having transportation of their own, families began to carry their own shelter. Originally this was in form of tents, or blankets, burlap, or canvas to be strung on ropes to posts or trees. (2) More recently, beginning in the middle thirties, more of the shelter has been taking the form of trailer-houses, usually home-made. (3) With greater range of daily migration to and from work a possibility, central camps for migrants began to appear, located off the properties of an employer. These camps may be fields rented for the purpose by labor contractors who often assemble gangs of migrants to work under their direction; they may be town parks or parked railroad properties; they may be commercially provided sites, with or without tents or cabins, which in California are called "auto camps"; or they may be simply "squatters' camps"—a site by the road under the trees, preferably near a service station where water can be secured, or a place in field or by stream where migrants assemble with or without permission, without rental, and usually without sanitary facilities.

By and large, the notoriety attained by housing for migrants—on account of its inadequacy—has been justified. In California, for example, which has the largest number, but not the worst migrant labor camps in the nation, state camp inspectors never have accorded to more than two-fifths of employers' labor camps a rating of "good," i.e., in full compliance with current law and regulations. (Inspection records cover 1914-1948, including camps mostly but not entirely for agricultural laborers.) From 9 percent to as high as 36 percent of employers' camps have been rated as "bad," i.e., complying with few requirements. The average percentage of "bad" camps has been 23 percent. These ratings do not include "squatters' camps,"

which were numerous in the thirties, have been reappearing since the war, and are all of them "bad."

Frequently the distressing condition of shelter for migrants has been a factor seriously aggravating agricultural labor strife. The classic analysis by Carleton Parker of the Wheatland, California, hop riot in 1913 has had sad confirmation in subsequent conflicts. Parker, after graphic description of the dreadful conditions on the ranch where the riot and shooting occurred, made this report to the Governor and to the U. S. Industrial Relations Commission: "It is the opinion of your investigator that the improvement of living conditions in the labor camps will have the immediate effect of making the recurrence of impassioned, violent strikes and riots not only improbable, but impossible, and, furthermore, such improvement will go far toward eradicating the hatred and bitterness in the minds of the employers and the roving, migratory laborers. This accomplished, the two conflicting parties will be in a position to meet on a saner, more constructive basis in solving the further industrial problems as to wages, etc."

The housing problem in California may justifiably be used for special examination here, not only because of its great extent in that state, but because of its long history, better documentation, and, at least until recently, the greater activity of public authorities in coping with the problem than in other states, and the fact that the national migrant camp program of 1935-1950 had its inception in California.

In California, since 1913, officials of the State Housing Division have had power to inspect the labor camps of employers, including those of labor contractors, and commercial "auto camps." They lack authority over "squatters'

camps." Inspectors have power to make arrests for violation of law. But the effectiveness of this power is tempered by the substantial political influence of agricultural employers both in localities where cases are brought to court and in the rural-dominated State Senate which must approve appropriations for the work of the Division.

Local officials, including health authorities, have legal power to abate camps, including "squatters' camps," whenever they menace health. But they are loath to do it, partly because to do so is largely ineffective, the migrants having no sanitary place to which to go, and partly because the migrants need employment and employers do not like to have their labor supply chased away. Nevertheless, this largely futile method of commanding migrants to "move on" still is employed. Health officials or district attorneys occasionally clear camp sites and burn the shacks in full knowledge that the occupants have slight opportunity except to create a similar menace to health somewhere else. As the State Division of Housing reported in 1932: "Moving the occupants away simply spreads the condition, and local authorities are loath to act against people who came there in the hope of securing some employment."

Public authorities in California have taken other measures to promote the adequacy of shelter for migrants. In 1927 the legislature enacted a law to enable groups of agricultural employers to set up districts for the purpose of levying taxes and operating labor camps, but none has ever taken advantage of this authorization. Some municipalities and counties have maintained a very small number of camps for varying periods of time.

In 1943 the Legislature as a wartime measure established and financed a Farm

Production Council as "an agency operated by farmers for farmers." This Council established and operated centralized labor reserve camps with housing secured from Evacuee-Japanese centers, fair grounds, or wherever it could be obtained. The Council assisted growers to obtain surplus government housing by purchase at advantageous prices and resale. It claimed, during four years, to have housed at one time and another, around 100,000 persons. During the last year of its existence it resold to farmers housing units for 13,000 families, and reported that: "perhaps no service rendered by the Council has been so beneficial to growers as this housing procurement program." When the council expired in 1947, the Legislature continued this form of public aid to employers by setting up a revolving fund of \$500,000 for purchase and resale of surplus housing. As a result of such public assistance and the increased financial capacity of employers to make housing provision produced by their wartime prosperity, the amount of housing provided by employers for their laborers increased greatly. Its quality, too, showed some improvement. The state inspectors in 1945-6 gave a rating of "good" to 30 percent of the camps; "fair" to 60 percent, and "bad" to only 10 percent. In the San Joaquin Valley alone, during 1949-50, 40 percent of agricultural labor camps were rated "good," 37 percent "fair," and 23 percent "bad."

The most extensive public labor camp program in the United States was initiated by the Rural Rehabilitation Division of the California State branch of the Federal Emergency Relief Administration in 1935. At a time when fearfully distressed drought existed and depression refugees were pouring into California in large numbers, and "squatters' camps"

abounded, it was decided to use relief funds to establish two camps in California's Central Valley. In 1939 Congress specifically authorized extension of this program, and made substantial appropriation for construction and operation of farm labor camps. This program was carried out by the Farm Security Administration, which succeeded the Rural Rehabilitation Division and the Resettlement Administration in responsibility for the earlier camps.

With this impetus, and under stress of war, the operations were transferred to the Labor Branch of the Production and Marketing Administration of the Department of Agriculture and the federal camp program spread to all parts of the country. During the eleven-month period ending June 1, 1944, approximately 150,000 persons were housed, consisting of about 51,000 foreign workers, 48,000 interstate migrants and their families, and slightly above 50,000 intrastate migrants and their families. In 1945, at the peak, the Labor Branch operated 47 permanent centers and 144 mobile camps in 26 states. In 1947 the program still was operating in 19 states. Twenty-two permanent camps were located in California, nine in Florida, eight in Texas, and 14 in six other states. In addition, 65 temporary camps were operated in 16 states. The largest numbers of these were located in North Carolina, Florida, Virginia, Idaho, Maryland and California, in the order named. The total capacity of permanent camps was 48,600 persons, and of temporary camps, 20,435.

Standard permanent camps were developed on a pattern of individual shelters, frame or steel, grouped around central utility units providing wash and shower rooms, flush toilets, and community laundry facilities. In the most carefully-planned and most fully-

equipped camps were structures providing public school, clinic, hospital, and nursery facilities, and cooperative store, community center, canning center, and housing for a resident manager and staff.

As part of the permanent centers more adequate housing for some of the more stable workers was usually erected, either of the apartment type or individual houses with small garden plots. These housing arrangements provided a better base during longer seasons of stability, and could be retained by families when some of their members migrated elsewhere for temporary employment. The planning of the camps and apartment-type housing achieved international architectural recognition.

Mobile, temporary camps consisted of mobile power-generating, wash and and shower facilities, and trailers for office and medical quarters. These moved from location to location to meet emergency harvest needs. Tents were provided for migrant workers. The rentals paid by migrants have never covered full costs of the camps, either mobile or permanent. The capacity to pay is generally insufficient.

Many large employers in California opposed the federal camps from their beginning in 1935, although by 1940 the camps had gained qualified, temporary acceptance from the State Chamber of Commerce. In other states the camps generally were unopposed by employers except as they were stimulated to opposition from sources in California. Objection was made not so much to public assistance in order to provide housing as it was to housing for migrant laborers under public control and not under employer control. Upon concluding its investigation of California's industrialized agriculture, the U. S. Senate Civil Liberties Committee observed: "Labor camps occupy an important place in

labor relations and in the maintenance of civil rights. As workers in an employer's camp are more or less isolated and as the employer can decide who is to live in his camp, a large measure of control can be exercised over the activities of laborers thus situated."

Partly because of desire to exercise greater control over operation of the camps, employing farmers exerted pressure in wartime to have the program transferred away from the Farm Security Administration. At the same time the name of the camps was changed significantly from "migratory labor camps" to "farm labor supply centers."

In 1944 the American Farm Bureau Federation asked Congress to decree liquidation of the program at war's end; Congress did as asked. Government operation ceased in the fall of 1947, and was replaced by private operation under lease, usually by groups of employers formed into non-profit associations. The 81st Congress postponed final liquidation until mid-1950 in order to allow time to deliberate whether to incorporate the centers into the federal housing program. A combination of Republicans and southern Democrats defeated a section in the first housing bill designed to do this. A similar section in the middle-income housing bill of 1950, however, providing for ultimate transfer of the centers to local housing authorities, became law. Thus the first federal rural housing projects, created to care for the poorest-housed people in the nation, were preserved in public ownership and operation.

The Department of Agriculture's administration of the centers during those years when employers were seeking to turn public housing into "company-housing" shows a keen sense of public and employees' interests. The Department was reluctant to take the easier course of disposing of them to employers'

associations until Congress could be brought to face the issue of public versus employer ownership and operation squarely. It sold only three migratory labor centers under Public Law 731 of the 79th Congress. None of these were needed to house migrants—in the opinion of Department officials—owing either to changes in agricultural labor demand in the vicinity, or to an originally unwise location. Only eleven centers were sold under Public Law 298 of the 80th Congress; the Department sold only four of these to non-profit employer groups. Seven were sold to public agencies—five to county housing authorities, one to a city housing authority, one to a municipality. Five of the eleven centers that were sold were located in Texas, two each in Washington and Idaho, and one each in Arkansas and Colorado. In sum, the Department of Agriculture disposed of only four centers out of fifty suited to agricultural migrants to associations of employers.

The United States Public Housing Administration received the remaining 39 migratory labor centers by transfer under the Housing Act of 1950. These were located as follows: 20 in California, 8 in Florida, 3 each in Arizona and Texas, 2 in Oregon, and one each in Colorado, Idaho and Washington. In June 1951 only one of these was being operated privately—a Colorado center for sugar-beet workers leased by the Ft. Lupton Farm Improvement Association. All but three of the 39 centers had been sold, and were in the hands of county or city housing authorities under sales contracts. This is the ultimate destination intended by Congress.

The city of Yuma, Arizona, was operating one center under "use permit" in June 1951, but had not yet entered into a contract for ownership under the liberal terms offered by the 1950 law.

A lone center at Thornton, California, still unaccepted by local public agencies for either operation or ownership, remained under federal operation by the Public Housing Administration.

Although Congress threw the weight of its support in 1950 toward operation as well as ownership by local public authorities, the legislative history of the Housing Bill discloses no congressional consideration of the relative merits of national versus local public operation. Either has advantages, but considering efficiencies of administration only, these lie mainly on the side of national operation. This is so because the problems of serving a farm labor camp population that is migratory are frequently peculiar and highly specialized, and are largely unaffected by location. The training, placement, and supervision of camp management personnel for forty or fifty camps, therefore, can be centralized to good effect. Many of the opponents of "company housing" were convinced of these advantages of national administration, yet in face of the political strength of agricultural employers seeking control of the centers for themselves, they were content to accept any decision at all so long as it favored public housing.

An episode during the years following World War II while the question of public vs. private ownership and operation was being fought out, reveals how interested parties saw the issue. Under the law passed by the 80th Congress providing disposal of the centers to "any public or semi-public agency or non-profit association of farmers" who would agree to operate them principally to house agricultural workers, the Secretary of Agriculture offered them as a group to the State of California at a small fraction of their appraised value, for around one-third below the already low figure placed upon centers for individual sale. The

Governor laid the matter of state acquisition before the Legislature. Price was not an issue when the question was acquisition by the state; only in negotiations for private purchase by employers or associations was price important. The central question was, who would control operation of the centers. The employers' effort was to defeat state ownership, which they did through adverse action by the rural-dominated State Senate.

So the issue remained hot in both Sacramento and Washington until Congress finally decided it in favor of public operation in 1950. The Grange, organized labor, some veterans' and church organizations, and interested citizens favored public ownership and operation of the camps, and opposed grower-acquisition, whether through non-profit or other forms of association. They regarded grower-acquisition of publicly-constructed camps as equivalent to federally-subsidized "company housing." The Associated Farmers, Farm Bureau, State Chamber of Commerce, and other organizations representing large farmers worked for grower-control. The fear of unionization of agricultural laborers, which underlies the California employers' concern over housing is real, but there is nothing in the experience of thirteen years of federal camp operation to indicate that public control is sufficient to tip the scales in favor of successful labor organization, or is soon likely to be. Nevertheless, the issue of control over labor through control of housing remains a factor to complicate any public efforts to improve housing for migrants at every political level from counties to Congress.

Wartime needs for labor resulted in improvement of migrant housing in many states. The State of New Jersey established a commission on migrants and in New York the governor appointed a

special wartime committee on migrant camps. The U. S. Agricultural Extension Service, which carried wartime responsibilities for farm labor placement, exerted its influence on the side of bettering conditions, and the arrangements for importation of foreign workers included guarantees of minimum living standards for the workers imported.

In the West, and in parts of Florida and other states where agriculture is expanding and population growing, seasonally migrant labor merges into a newly-settling group which has migrated from afar. At first a part of the seasonal migrants, its members come to depend less and less on migration to find work, while others take their places as seasonal migrants. They may remain seasonal laborers, but not seasonal migrants. Improved roads and automotive transportation, which enlarge the radius of feasible daily migration, contribute to this process.

The fact is significant for any future attack upon the housing problem. Migrants and former migrants tend to settle in slums on the fringes of urban communities that dot the great valleys of the West, the Southwest, and the Everglades of Florida. To a greater extent than generally has been believed, the "rural" housing of agricultural workers is becoming "urban." This is true not only in the areas characterized by migration, but in regions such as the great Mississippi and Arkansas deltas where cotton plantations now depend increasingly on non-resident day laborers hauled daily to and from the plantations during the season, as much as 43 miles each way.

Consequently, it may prove quite as feasible to attack great sectors of the so-called "rural slum," and even the migratory labor housing problem,

through county and even "urban" housing authorities, as through the more specialized program attempted in the past. The ideal is for various programs—private or public, urban, rural non-farm, or specialized for migrants—to supplement each other.

Both the President's Commission on Migratory Labor and the Governor's Committee in California recommended use of federal funds in rural areas under the Housing Act. The California Committee recommended that state, county and local agencies "explore the desirability of establishing public camp sites," and the President's Commission proposed grants-in-aid from the Department of Agriculture to states agreeing to construct such camps in accordance with federally-approved standards. The President's Commission was critical of the evident reluctance of the Public Housing Administration, established by law to aid in housing low-income persons, to come to grips with the need for housing those with the lowest income and greatest need of all, the migratory workers in agriculture.

The California Committee recommended tightening the state program to safeguard standards through public inspection of private housing. The President's Commission recommended that the United States Employment Service refrain from recruiting out-of-state agricultural workers, and the Immigration Service likewise from importing foreign workers, unless and until the states requesting workers shall have established suitable housing standards for migrants.

If there is sufficient public desire to solve the problem of substandard housing among the migrants in agriculture, there is now sufficient experience and a sufficient array of techniques available to do the job.

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The Wisconsin Conference on World Land Tenure Problems: Background and Setting

By PHILIP M. RAUP*

"More than seventy experts from fifty nations will meet at the University of Wisconsin in the Fall of 1951 to study land tenure problems and to consider land policies that will improve economic and social conditions throughout the free world." (President E. B. Fred of the University of Wisconsin, as announced July 2, 1951.)

BEHIND this announcement lies a long history of American interest in land tenure problems. Throughout the nineteenth century and well into the twentieth century the people of the United States devoted a major part of their energies to the development and carrying out of land policies on a heroic scale. The tasks of settling a continent, dividing up its land, and of creating a system of farms owned predominantly by the people who farm them have played a major role in United States history.

The development of the American land tenure system has been part of a long history of world wide struggle for land tenure reforms—a struggle the roots of which lie deep in antiquity, and one that still plagues the world today. In this century two world wars have brought in their wake a succession of revolutions and reforms centered in an impressive number of cases around land tenure issues. The nineteenth century was characterized by the rapid reorganization of feudal systems of land tenure in most of western Europe; there remain major portions of the world where the adjustment of the land tenure system to the techniques and institutions of a modern age has yet to take place. Mid-course in the twentieth century—the age of the machine, of the city, of industrial civilization, and of atomic power—the

brute fact remains: land tenure problems lie at the root of some of the most perplexing problems that disturb the peace of our world.

Can these problems be solved peaceably? Can they be solved in a manner that conforms with the desires of widely differing peoples for a better life? It has been done in Denmark. In England a quiet revolution over the years has effected a major transformation in the British land tenure system. In Ireland the farmer today is the owner of his land—a status that he has achieved by struggle, but that has in the main been reached without loss of his freedom as an individual, or sacrifice of his democratic way of life. These and other items are for the credit side, but they are too few. Recent events in China, the Philippines, Italy, and Iran, and the threat of upheaval in many other troubled spots all combine to force our attention upon world land tenure problems today. The struggle is still with us.

There has been an impressive awareness of this fact since the end of World War II. It runs as a continuing thread through a number of significant documents of American policy, and through a variety of statements of lay and governmental officials and organizations. It is the purpose of this article to document these statements since the end of the last war, and to relate them to the forthcoming conference on world land tenure problems.

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As World War II drew to a close, there was a flurry of activity in the United States in drafting statements of policy to guide military commanders in their roles as occupying authorities, particularly in Germany, and, somewhat later, in Japan. Several guides to policy were prepared and directed specifically to the need for postwar land tenure reforms in occupied territories. For Germany, one of the early guides to policy was contained in a War Department pamphlet dealing with *Agricultural Holdings and the Law of Hereditary Estates in Germany*. Referring to the 3 percent of the population that owned 20 percent of the land of Germany, a group roughly characterized as the Junkers, this pamphlet declared:

"This group has formed the kernel of political and social reaction in Germany . . . Under the Weimar Republic, the majority of the Junkers supported and encouraged all movements aiming at the overthrow of the Republic. They comprised the most reactionary and anti-democratic group of Germany in that period. . . Incontrovertible political considerations will necessitate the dissolution of the Junker holdings. Their continuation would constitute one of the most formidable obstacles to the establishment of a lasting democracy in Germany, for the holders of these estates have been consistent and active opponents of democratic government. . . ."¹

This policy recommendation was reinforced by a later study that emphasized the need for a dissolution of landed estates² as a precondition for German democratic development.

"The concentration of large estates in Eastern Germany has resulted in a feudal society of poorly educated, poorly paid, and ill-housed farm labor population and an educated and powerful land-owning 'elite.' This naturally has affected unfavorably the

development of family farms. It has retarded the education of farm laborers and the participation in self-government of both farm laborers and family farmers."³

The formal statement of these policy recommendations was contained in the basic *Directive to Commander in Chief of U. S. Forces of Occupation Regarding the Military Government of Germany*, item 28 of which read:

"You will direct the German authorities to utilize large landed estates and public lands in a manner which will facilitate the accommodation and settlement of Germans and others or increase agricultural output."⁴

For Japan, the basic statement of United States policy regarding land tenure reform came a few months later. In October 1945 the State Department had supplied General MacArthur with a detailed study of the Japanese farm tenancy situation, recommending a basic land tenure reform. At about the same time the *Basic Directive for Post Surrender Military Government in Japan Proper* was issued, setting forth in clear though general terms the policies which should govern the military occupation in democratizing labor, industrial and agricultural institutions in Japan.⁵ "Thus within a few weeks General MacArthur received on the one hand full authority for correcting undemocratic economic arrangements in Japan, and on the other hand, a documented indictment of the undemocratic land tenure system."⁶

It is beyond the scope of this survey to attempt any account or analysis of the implementation of U. S. land tenure

¹ *German Food Self Sufficiency and Landed Estates*, Technical Industrial Disarmament Committee, Project 23, Foreign Economic Administration, Washington, September 5, 1945.

² Joint Chiefs of Staff Directive No. 1067/6, April, 26 1945.

³ Joint Chiefs of Staff Directive No. 1380/15, November 3, 1945.

⁴ For an account of the development of U. S. agrarian policy in Japan see *Japanese Land Reform Program*, Report No. 127, Natural Resources Section, General Headquarters, Supreme Commander for the Allied Powers, Tokyo, 1950, from which this quotation was taken.

¹ War Department Pamphlet 31-170, July 29, 1944.

² A landed estate was defined as a farm having more than 100 hectares (247 acres) of agriculturally-used land.

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⁷ For material 127, pp. Report 127, Ministry of Agriculture, September 19, 1945. W. M. C. Laurence, Land Tenure, B. Williams, Economics, Land Reforms, Farm Economics, Agricultural

policies in Germany and Japan.⁷ The policy statements cited here are important in their own right, for they are the points of departure in an account of the development of U. S. attitudes and policy toward programs of land tenure changes in foreign countries in the recent past. Prior to the defeat of Germany and Japan the United States had had no occasion to develop policies of this nature. Leaving aside at present the question of the success or failure in policy implementation, the policies as stated put the United States on record in favor of land tenure reforms in countries in which the United States had direct responsibilities.

A second development toward the close of World War II is also of importance in this account. In August 1944, while the war was yet on, a conference was held in Puerto Rico to discuss the land tenure problems of the Caribbean area. At that meeting representatives were assembled from Cuba, Haiti, and the Dominican Republic, and from the Caribbean possessions of the United Kingdom, the Netherlands, and the United States.

Devoting its attention to the technical phases of land tenure problems, this conference underlined the dominant roles that agriculture and the tenure of agricultural land play throughout the Caribbean area. Land is the most important

productive factor. Faced with a staggering and increasing pressure of people on the land resources, the Caribbean countries are struggling with a farm economy in which the common unit of production takes two forms: the large plantation and the tiny subsistence farm. Usually absentee-owned, producing often for a single export market, the Caribbean plantation emerges as an unstable and trouble-breeding tenure institution. The small holdings, on the other hand, are too small to provide the security and level of living desired by the farm and plantation worker families that till them. In this setting the 1944 conference was a significant event. It provided the first opportunity for a systematic survey of these Caribbean tenure problems, and it set an example for subsequent efforts at a common approach to the study of international land tenure problems.⁸

Two further important conferences on land tenure problems took place soon after the end of the war. The first occurred in February 1946, when the Farm Foundation and the University of Chicago sponsored a "Conference on Family Farm Policy." Hampered though it was by the dislocations of travel and communications that immediately followed the war, this conference nevertheless managed to include on its agenda a

⁷For Japan, the interested reader will find valuable material in the following official reports: SCAP Report No. 127, pp. 118; *op. cit.*; *The Japanese Village in Transition*, SCAP Report No. 136, pp. 272, November 1950; *Agricultural Land Reform Legislation* (in English), Agricultural Land Bureau, Ministry of Agriculture and Forestry, Tokyo, Japan, pp. 295, September 1949, and the *Supplement*, thereto, pp. 72, January, 1951. For reportorial and analytical treatments see: W. M. Gilmartin and W. I. Ladejinsky, "The Promise of Agrarian Reform in Japan," *Foreign Affairs*, January 1948; Laurence I. Hewes, Jr., "On the Current Readjustment of Land Tenure in Japan," *Land Economics*, August 1949; Mark B. Williamson, "Land Reform in Japan," *Journal of Farm Economics*, May 1951; Arthur F. Raper, "Some Effects of Land Reform in Thirteen Japanese Villages," *Journal of Farm Economics*, May 1951; a series of reports by W. I. Ladejinsky in *Foreign Agriculture* (U. S. Department of Agriculture, Washington, D. C.) for June 1947, August-

September 1947, February 1949, and, by the same author, "The Plow Outbids the Sword in Asia," *The Country Gentleman*, June 1951. For Germany, official reports on military government efforts in implementing land tenure reforms in the U. S. Zone are contained in the series of *Monthly Reports of the Military Governor, U. S. Zone* (Berlin, Germany), in particular in those for months subsequent to September 1946, the date of military government approval of a *Law for the Acquisition of Land for Settlement Purposes and for Land Reform* for the U. S. Zone. Unpublished material dealing with land tenure reform in Germany is contained in; Philip M. Raup, *Land Reform in Post War Germany: The Soviet Zone Experiment*, Ph.D. thesis, University of Wisconsin, 1949.

⁸The proceedings of this conference are available in the *Caribbean Land Tenure Symposium*, Caribbean Commission, Committee on Agriculture, Nutrition, Fisheries, and Forestry of the Caribbean Research Council, Washington, D. C., 1946.

discussion of land tenure and family farm problems in an impressive number of countries, in addition to the United States. Much valuable exploratory work came out of this conference, particularly with regard to the definition of issues, and the relation of land tenure problems to the social, economic, and political fabric in which they occur.⁹

Three months later, in May 1946, an "International Conference on the Rural Church and Farm Land Tenure" was called together in New York City, under the sponsorship of a number of church organizations having world-wide interests and missions.¹⁰ The importance of this conference lay in the fact that it mobilized and gave voice to the growing concern of a wide variety of church and lay religious leaders over land tenure and agrarian reform problems. The war had forced the return to the United States of a number of agricultural missionaries, religious workers, and leaders from the far corners of the world. In summarizing their deliberations at this conference, John H. Reisner, Executive Secretary, Agricultural Missions, Inc., pointed out that:

"The total well-being of rural people everywhere is dependent upon an early and just solution of these [land tenure] problems. The political stability of many areas is closely related to economic inequalities and related injustices. These matters are of grave concern to religious people in all countries. It is difficult to nurture spiritual growth among rural people who must struggle 'to keep body and soul together.' It is recognized that the work of local religious leaders is handicapped seriously by these

unstable conditions and disconcerting influences. . . . Church leaders and people in political power are gradually awakening to their moral responsibilities in these matters."¹¹

The three conferences cited here played an important role in focusing the attention of a number of organizations and professional workers in the field of land tenure on the disruptive forces inherent in world land tenure problems. They were important steps in the development of a widespread conviction that a solution to world land tenure problems was vital to the peace that had failed to come, even after the exhausting experience of two world wars.

Events in the political sphere soon reinforced this conviction. Of primary significance in this context was Yugoslavia's break with Russia and with the Cominform states in 1948. Although the reasons for Yugoslavian disaffection are complex, there seems to be general agreement that Tito's unwillingness to follow the Russian timetable for land tenure change was one of the basic causes of the split. The Russian-inspired programs for farm collectivization were too much for the Yugoslav peasants. Unique among the Russian satellite countries of Eastern Europe, Tito's Yugoslavia was in a position to resist. The Yugoslav action dramatized the major importance which land tenure policies play in the Russian communist programs for revolt and the seizure of power.

The threat of Communism to Americans has generally been associated with industrial unrest and with programs of revolt that have been centered in urban and industrial areas. It has been a difficult lesson to learn that for most of the world outside the United States, Canada, Britain, and several Western European

⁹ The proceedings of the conference, edited by Joseph Ackerman and Marshall Harris, were published as *Family Farm Policy*, University of Chicago Press, 1947.

¹⁰ Included among the sponsoring agencies were: The Home Missions Council of North America, the Federal Council of Churches of Christ in America, the International Council of Religious Education, the Rural Missions Co-operating Committee of the Foreign Missions Conference of North America, the Farm Foundation, and Agricultural Missions, Inc.

¹¹ *Agrarian Reform and Moral Responsibility*, Report of an International Conference on the Rural Church and Farm Land Tenure, Agricultural Missions, Inc., New York, 1949, p. iv.

¹² A case of seizure of power by "Agrarian Economics" presented in the "Agrarian Failure in

countries, the threat of communism has revolved around agrarian issues. Tito's action underlined this fact.

This lesson was driven home with finality by the fall of China. Though recriminations over the failure of Chinese policy still fill newspaper headlines, little doubt can remain that a fundamental reason for China's fall was the repeated failure of the Kuomintang regime to carry out basic land tenure reforms.¹²

Communist programs, in China as elsewhere, may aim at industrialization in the future and may be vitally dependent on it. The hard fact remains that most of the countries of the world which face a communist threat of revolt are overwhelmingly agrarian, and in those countries the likeliest vehicle for communist aggression is the promise of land tenure reform.

Recognition of this fact has been particularly evident in the U. S. within the past 18 months and especially since the outbreak of the Korean war. A succession of reports by U. S. officials, observers, and by newspaper correspondents from China, from Korea, and from elsewhere have reiterated the fundamental role that inequitable land tenure systems are playing in the unrest that grips so many countries today.¹³

Official recognition of this fact was made in President Truman's broadcast from San Francisco upon his return from the Wake Island conference with General MacArthur in October 1950. The President said:

"We know that the peoples of Asia have problems of social injustice to solve. They want their farmers to own their land and to enjoy the fruits of their toil. That is one of

our great national principles also. We believe in the family-size farm. That is the basis of our agriculture and has strongly influenced our form of government."¹⁴

The President's statement was one of a number of official and semi-official statements in the fall of 1950 which drew attention to the need for land tenure reforms. Just before leaving for Wake Island the President had been handed the report by the *Economic Survey Mission to the Philippines*, which he had appointed at the request of the President of the Philippine Republic. This document, popularly referred to as the Bell Report, was explicitly critical of the lack of progress in land tenure improvement. It stated:

"Land is the most important source of wealth in the Philippines and its concentration or distribution is the primary factor that affects the social and economic well-being of the people. . . . The land problem remains the same or worse than four years ago and the dissident trouble has spread to wider areas. . . . The Philippine farmer is between two grindstones. On top is the landlord, who often exacts an unjust share of the crop in spite of ineffective legal restrictions to the contrary. Beneath is the deplorably low productivity of the land he works. The farmer cannot see any avenue of escape. He has no credit except at usurer's rates. There is no counsel to which he can turn with confidence. He is resistant to change for fear of losing the meager livelihood he and his family possess. The incentive to greater production dies aborning when what he regards as an unjust share of the harvest of his work goes to the landlord."¹⁵

D. C., January 1951; numerous articles that have appeared in *The Reporter* (New York: Fortnightly Publishing Co.), in particular the issue of January 3, 1950.

¹⁴ *The New York Times*, October 18, 1950.

¹⁵ Report to the President of the United States by the *Economic Survey Mission to the Philippines*, Daniel W. Bell, Chief of Mission, State Department, Washington, D. C., October 9, 1950. It is important to note here that action has been taken on the Bell Report recommendation that a program of land redistribution be undertaken through the sale of large estates to small farmers. On February 28, 1951 a Philippine Advisory Committee was created to study the problem and recommend implementing legislation. That committee's report is now available as *Report and Recommendations of the Advisory Committee on Large Estate Problems*, Office of Economic Coordination, Republic of the Philippines, Manila, April 1951.

¹² A careful account, written on the eve of the communist seizure of power in China, is given by Chee Kwon Chun, "Agrarian Unrest and the Civil War in China," *Land Economics*, February 1950. The same conclusion is forcefully presented by John K. Fairbanks, "The Problem of Revolutionary Asia," *Foreign Affairs*, October 1950, pp. 101-13.

¹³ See, for example: C. Clyde Mitchell, *Korea: Second Failure in Asia*, The Public Affairs Institute, Washington,

Several weeks later Secretary of Agriculture Charles F. Brannan addressed the annual U. S. Department of Agriculture "Outlook Conference" in Washington, D. C. and observed that:

"American people are greatly disturbed by what is happening in other countries of the world. They realize that a part of the unrest in many countries can be traced to insecure and inequitable land tenure. Under those conditions farm people do not feel that they have a stake in the land, or that they are receiving an equitable share of the produce of the land. This brings us to a greater realization that widespread land ownership, security of tenure, and equitable landlord-tenant arrangements are part of the basic fabric of our democratic institutions.

"In this setting, perhaps we need to look for possible improvements in our own situation. Are we setting a good example as a free Nation? How can we make further advances toward the goal of family farm ownership?"¹⁴

At the same time, but in another setting, Senator John Sparkman of Alabama was voicing a similar expression of United States' interest in world land tenure problems. Speaking as the U. S. delegate before Committee 2 of the General Assembly of the United Nations, Senator Sparkman set forth in specific terms the interest of the U. S. government in proposals for land tenure reforms. He said:

"In the United States we believe strongly in farm ownership, individual farm ownership. We believe that the land that a man and his family works and on which they make a living ought to belong to him and to his family. It is that objective toward which we have been working during the last many years, and it is that same kind of a program or a similar program that we envisage may very well be encouraged by this General Assembly and by this committee, and might very well be undertaken in many parts of the world. That is the reason, Mr. Chairman, that we

wholeheartedly support this kind of a program, and that is the reason we ask for the amendment that would particularly provide for helping small farmers, individual farmers, to own and operate the land out of which they and their family make a living."¹⁷

This was a theme to which the Secretary of Agriculture returned on November 16, 1950, in an address before the annual meeting of the Association of Land Grant Colleges and Universities. Mr. Brannan devoted a major portion of that speech to a discussion of the roots of unrest in peasant countries.

"All over Asia, communists are spreading the word that the land is to be divided up. 'Join with us,' they say, 'and the land you farm will be yours. Help us overthrow the present authorities, and you will immediately be a land owner. This is the only way you can ever hope to have your own farm.' . . .

"Among at least half of the world's people, the misery of the peasant is a basic obstacle to peace because it provides the 'soil' in which communism or some other form of totalitarianism breeds. . . .

"We should by all means make clear that our country has had experience in dealing with such problems as are faced by the farm people of Asia, the Middle East, Africa, South America—problems of land tenure.

"Those looking toward Russia for a tenure pattern are looking in the wrong direction. . . . The worst error that could be made. . . . would be to look to American democracy as merely the center of productive genius and to Russian communism as the spiritual center in the field of social organization. The communist pattern offers only degradation. The democratic pattern conforms with the most deeply felt desires of mankind. . . .

"The greatest thing we have to export is hope. . . ."¹⁸

The Secretary of Agriculture continued discussion of this subject in speeches be-

¹⁴ Charles F. Brannan, "Agriculture and National Defense," speech before the USDA Outlook Conference, Washington, D. C., October 30, 1951.

¹⁷ Speech before the United Nations General Assembly, Committee 2, October 31, 1950. The full text is available in the *Congressional Record Appendix*, pp. A 7897-98, December 5, 1950.

¹⁸ Charles F. Brannan, "Hope, an American Export," speech before the annual meeting of the Association of Land Grant Colleges and Universities, Washington, D. C., November 16, 1950.

fore the annual meeting of the National Grange at Minneapolis;¹⁹ before the North Dakota Farmers Union, at Bismarck;²⁰ and, as Chairman of the U. S. Delegation, before the Fourth Inter-American Conference on Agriculture at Montevideo, Uruguay.²¹ Throughout these speeches, and parallel with the emphasis on the land tenure roots of world unrest, Secretary Brannan emphasized the importance which the family farm and the widespread ownership of farm land has had for the development of American democracy. A large part of the history of America is the history of a "land reform," continent-wide in scope. We must see to it, he repeatedly emphasized, that we protect and improve our land tenure system at home, if we are to be of greatest aid to other peoples.

Two administrative actions were the outgrowth of this interest in land tenure, at home and abroad. The first was the establishment, within the Department of Agriculture, of a systematic review of all current programs and activities, to determine how they now contribute or can be made to contribute to the support of the family farm.²²

Coincident with the review of domestic family farm policy was the systematic study, by an Inter-Departmental Committee, of U. S. policy with regard to land tenure reforms in other countries. Under-Secretary of Agriculture Clarence J. McCormick undoubtedly had this policy study in mind in a recent speech before the Twelfth Food and Agriculture

Organization Council Session in Rome, Italy. After reviewing the continued strong interest of the United States in the work of the FAO, he continued:

"Land reform in its broadest interpretation deeply affects security in the world today. . . . We in the United States regard land reform in the broad terms of improvement of all economic and social institutions surrounding farm life. . . . We recognize. . . that specific land reform measures will have to be evaluated in relationship to the conditions peculiar to each region and country, and that the individual cultural patterns of many countries may have differing constructive contributions to offer toward the same basic objective.

"In support of this policy which we as a nation have affirmed, the United States Government intends giving encouragement and assistance to land reform when and wherever it will substantially contribute to promoting the objectives I have enumerated.

"We shall do so in both planning and administration of our foreign economic and technical assistance program, and we will also lend other practical assistance to desirable land reforms in addition to the economic and technical assistance programs. We shall also actively encourage and assist in carrying forward land reforms in non-self-governing territories under United States administration, and, upon request, will work with other governments in connection with desirable land reform in such territories under their administration. Furthermore, we shall take every opportunity to support and encourage desirable land reform programs through all appropriate international agencies.²³

These policy statements form the backdrop against which the work of the forthcoming Wisconsin conference on world land tenure problems must be seen. Stimulated in particular by the Secretary of Agriculture's speech before the Association of Land Grant Colleges and Universities,²⁴ the University of

¹⁹ "The Elements of Leadership," Minneapolis, Minnesota, November 17, 1950.

²⁰ "Land and Liberty," Bismarck, North Dakota, November 18, 1950.

²¹ "Hemispheric Strength Through a Mutually Prosperous Agriculture," Montevideo, Uruguay, December 4, 1950.

²² The interim results of this review are available in *Family Farm Policy Review*, Provisional Report and Tentative Recommendations of the Family Farm Policy Review Subcommittee, U. S. Department of Agriculture, Washington, D. C., June 11, 1951.

²³ "Beyond Today's Horizon," opening statement of Clarence J. McCormick, United States member of the Council of FAO, Twelfth FAO Council Session, Rome, Italy, June 11, 1951.

²⁴ See footnote 18.

Wisconsin proposed to the U. S. Department of Agriculture that a conference and training program on land tenure problems be inaugurated, and that participants from the nations of the free world be invited to attend. This proposal met with ready support from the Department of Agriculture, the Technical Assistance (Point IV) Administration of the U. S. State Department, and the Economic Cooperation Administration. With the aid of generous financial assistance from these last two agencies, a two-part program is planned: a five-week conference will be held in October and November 1951, to which over 70 foreign participants will be invited. Twenty-five or more of these will be enabled to stay on for a full year to permit a thorough study of the issues raised at the conference, to work intensively on the problems of their own countries and to examine in more detail the workings of the American land tenure system.

By arranging for a five-week meeting, with an additional week of travel in the U. S. following the conference, it is hoped

that time will permit a reasonably thorough examination of a wide variety of the complex issues involved in land tenure changes. The Fall conference is planned as a workshop, with particular emphasis on the discussion of problems common to areas and regions, and to proposed programs of reform. For a part of the conference, working parties, for example, will discuss the tenure problems of specific areas: the Middle-east, the Far East, or Latin America. They will also be organized during the conference to study particular problems common to almost all areas: the effects of tenure upon productivity; the consolidation of strip parcels; or the management of public lands.

There is no illusion on the part of those planning the conference that land tenure reforms can alone be the touchstone for solution to the problems of agrarian and underdeveloped areas. No panaceas will be sought at the conference; the emphasis will be on the adaptation of tenure reforms to the particular conditions of each country, in ways that will be compatible with that country's institutions, and with the hopes and aspirations of its people.

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The Reorganization of the Federal Communications Commission: A Case Study in Administration and Organization

By E. W. CLEMENS and L. W. THATCHER*

THE recent partial reorganization of the Federal Communications Commission along industry lines constitutes a significant case study in the science of governmental organization and administration. The Commission inherited a staff organized on professional lines from the Federal Radio Commission which it succeeded in 1934. The Communications Act of 1934 establishing the new commission provided for staff officials in each of three professional lines—engineering, accounting, and law—and thus tended to encourage continuation of a staff organization grouped on professional lines. But the Act authorizing the Commission contemplated that the commission would organize itself into divisions along industry lines rather than professions and under the first chairman, Judge Eugene O. Sykes, the Commission (but not the staff) was set up with industry divisions; telephone, telegraph, and broadcasting services.

Basically, the new plan of organization contemplates the establishment of a common carrier bureau alongside others devoted to safety and special services, and field monitoring. The Common Carrier Bureau, the first of the new bureaus, has been further subdivided along industry lines into telephone, telegraph, and international carrier divisions. The old professional bureaus of Accounting, Engineering, and Law, all a heritage from the Federal Radio Commission,

have been abolished. The General Counsel, Chief Engineer, and Chief Accountant have been made staff Officers. Thus the new organization is of the line-and-staff type.

Several factors gave impetus to the reorganization. The Hoover Commission Report was of course of considerable importance. Congressional criticism, represented by the McFarland Bill, which would have forced reorganization on an industry basis, was another important factor. Within the Commission itself there was considerable discontent and self-criticism which increased as postwar problems developed and pressed for solution. Several staff members recommended reorganization and their suggestions received cautious acceptance from the Commissioners. Chairman Denny, supported by other Commissioners, took steps towards dividing the Commission into panels. His successor and present Chairman, Wayne Coy, proposed a step by step approach in which common carrier activities would first be split away to form a single new industry bureau. On the other hand there were various individuals and groups within the Commission who opposed this type of reorganization for various reasons. Hesitancy undoubtedly was induced by fear of disorder and confusion which, however short lived, might throw the Commission even further behind in its work. It is also true that the Democratic-Republican lineup of the Commission did not lend itself to any system of division that would not partly destroy the existing majority control.

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The program took concrete form in November 1949 when the Commission called for a survey and a report to develop the type of organization which would permit the most effective performance. The survey was started immediately under the direction of Charles Koblentz who had made similar surveys for other governmental agencies. He was assisted by various staff members of the Commission. Some two months later a report¹ was submitted to the Commission by W. K. Holl, Acting Executive Officer, who had long been interested in the proposal and who had worked closely with Mr. Koblentz. The first survey involved only common carrier activities and recommended that a common carrier bureau be set up. The Commission immediately ordered the reorganization along the lines indicated. The transfer of personnel to the new Common Carrier Bureau and other incident changes have now been completed. The second phase of the reorganization followed shortly with the submittal of a second survey and the creation of the Special Services Bureau.

The Koblentz survey was thoroughgoing and comprehensive. The work of each section, division, and branch was surveyed insofar as it pertained to common carriers. A "pattern of organization" was prepared for each summarizing: (1) Staffing. (2) Objectives. (3) Functions. (4) Authority to act. (5) Interrelations with other organizational units. (6) Cross relationships, movements of work. (7) Assignments of work to personnel. (8) Levels of supervision within the organization and above it. (9) Mechanism of accountability; how the supervisors maintain control over the work program. (10) Priority of work. (11) Files and source data. (12) Miscel-

laneous material. The various subdivisions of the Commission were surveyed on each of these counts. The report constitutes an excellent management survey for it suggested many ways in which the functioning of the staff could be tightened. For example, it was noted that the mechanism of accountability was very loose, or that control involved unnecessary red tape. In short, the report was a detailed unit by unit survey of the operation of the entire Commission. Fundamentally, however, it served the purpose of familiarizing the survey staff with conditions so that they could support their recommendations.

Shortcomings of the Old Organization

The Federal Communications Commission has from time to time been subjected to considerable and uncalled-for criticism. This criticism has hidden the many sound, ground-breaking achievements in a difficult field which must be credited to it and which, in the long run, will undoubtedly bulk larger than the administrative and organizational weaknesses which characterized its internal organization. But there were administrative shortcomings. To those shortcomings which characterize all government bureaus must be added special ones which may be traced, first, to the organizational procedures inherited from the old Federal Radio Commission, itself an emergency creature, second, to the tremendous burden of post war duties and finally, to the peculiar thorniness of the problems with which it worked.

Analysis of the organization by the Hoover Commission,² the Koblentz group, and by certain other individuals within the Commission itself delineated the basic organizational weaknesses by pointing out that the F.C.C. had failed

¹ Federal Communications Commission, *Report of Management Survey, Common Carrier Activities*, January 1950. (Processed)

² Commission on Organization of the Executive Branch of the Government: *Task Force Report on Regulatory Commission*, Appendix N. (Washington: 1949).

to clarify basic policies sufficiently so as to permit greater delegation of power to the staff members and to formulate a comprehensive regulatory program. As a result commissioners were overburdened with administrative work to such an extent they did not have adequate time to devote to the broader questions of policy-making. So ran the vicious circle. There was also criticism of the Commission's handling of routine matters. It was said that "Commission meetings have consumed so much of the Commissioners' time that they have been unable to prepare for the meetings or to devote sufficient thought to the many policy questions which require determination"³ . . . and "with minor exceptions there has been no division of work at the Commission level."⁴

To meet the situation the Hoover Commission recommended the industry basis of organization of the Commission's staff. "A serious impediment to the Commission's realization of its full potentialities as a regulatory agency has been in its inability adequately to tap the resources of its staff. The professional organization of its staff is marked by diffusion of responsibility with respect to the Commission's operations . . . The successful performance of the professional (organization) is dependent upon coordination among the heads of the professional bureaus. In fact, however, they have not developed adequate techniques for coordination."⁵ The Hoover Commission went on to recommend the functional (industry) basis of organization.⁶

³ *Ibid.*, p. 94.

⁴ *Ibid.*

⁵ *Ibid.*, p. 95.

⁶ In accordance with general usage in the Commission the present authors will use the terms "industry" and "professional" to characterize the new and the old types of organization. However, the term "functional" has been applied to both types of organization in various reports and in academic literature.

There is reason to believe that the substitution of the industry basis of organization may eliminate some of the problems which have hamstrung the Commission and open the way for more forthright handling of other pressing problems. Certainly the Commission has able and conscientious members with considerable specialized and technical training.⁷ The same may be said for the staff. It remains only to release and guide these energies and resources more effectively.

Apart from this criticism by the Hoover Commission's Report, there were certain other weaknesses in the organization and administration of the Commission. The Federal Communications Act gives equal power to all commissioners. Hence there was no clarity in the mind of the commissioners as to the chairman's functions and responsibilities. There may also have been a certain amount of opposition to the delegation of authority to him or assumed by him and resentment towards any strong action which he might presume to take. Despite the strong personalities of most of the chairmen there was some lack of leadership along organizational lines. Although the training of the commissioners differed widely and their interests were varied there was no organized specialization within the Commission. On an informal basis the Commission accorded special weight to the opinions of some of its members who were particularly informed or concerned about certain problems. Most matters were handled by the full membership.

The turnover of Commission Members has been high and of necessity few Commissioners at any one time were fully cognizant of the many aspects of the problems placed before them. This

⁷ For a thumbnail sketch of the present commissioners see Herbert Bratter, "Meet the FCC," *Public Utilities Fortnightly*, March 29, 1951, p. 399.

weakness is one inherent in any commission and not peculiar to the F. C. C. In this instance the difficulty was presumed to have been met, at least technically, by Section 4 (f) (1) of the Communications Act which provided each commissioner with an administrative assistant, nominally an attorney. But the salary of these assistants was set at \$4,000, a rate at which few qualified men were available or were available for any period of time. On this account commissioners were deprived of the necessary staff underpinning which detracted from their efficiency in meetings. The \$4,000 salary limit has now been raised substantially and in addition each commissioner is entitled to a legal assistant at a fairly high salary.

Any study of administrative techniques must necessarily consider the problem of delegation of duties. The question must be raised with respect to the extent the Commission developed long-range plans and policies which would permit the delegation of duties to the staff. The Commission has been subject to criticism for devoting too much time in the processing of applications for broadcasting licenses. With the establishment of policies and standards, this function might well have been delegated to a high degree. From the standpoint of administrative theory, delegation of work must be sufficient to give executive, or administrative bodies, free time to devote to the thorough, careful, and almost leisurely, development of policies and other top-level duties. It is probably true that this administrative ideal is more applicable to an agency dealing with quiescent industries than to one dealing with the dynamic and emerging radio industry in which almost all problems are top-level ones. Here even the smallest problems present new and previously unheard-of situations. Each case may be

the root of policy. Delegation of these broadcasting problems to a staff organized on a professional basis was found to be most difficult, if not impossible. Hence they devolved upon the Commission itself.

The Commission did develop policies on a day-by-day basis and through the promulgation of extensive rules and regulations. These rules approached voluminous proportions and were subject to frequent changes as new problems emerged. It was difficult to establish firm policies and consequently there was considerable confusion. On the other hand some case decisions did not involve hearings and detailed findings, hence did not reveal policies. While it is quite possible that the Commission was overly conscientious in its attention to details, the Communications Act allowed it little leeway in certain broad areas. Section 409 (a) provided that in the administration of provisions pertaining to radio the Commission cannot delegate its power to hold hearings (as well as other powers) to examiners in respect to (1) changes in policies by the Commission, (2) the revocation of a station license, (3) new devices or developments in radio, or (4) a new kind of use of frequencies. It provided, further, that in all cases heard by an examiner the Commission shall hear arguments on the request of either party. The burden thus placed upon the Commission was tremendous.

Thus policies in many critical areas were slow in emerging. But despite the Commission's burden of detail its achievements in the field of policy-making were notable and seem to compare favorably with those of other governmental agencies. For example, the general allocation of frequencies in 1945-46 was a tremendous undertaking and few more significant jobs of planning can be visualized. Comprehensive plans were developed for

TV and FM, covering both allocations and operating standards for stations. Many other achievements could be mentioned such as the network regulations, the duopoly rule against multiple ownership of stations, an opinion on editorialization by broadcast licensees, and a report on the public service responsibility of broadcasters. These accomplishments gain in stature when they are set against the problems of the industry and against the tremendous opposition that was engendered in the broadcasting industry against any form of regulation.

As stated before, the Commission staff was organized along professional lines—accounting, engineering, and law—while the problems were clearly those of industries. The arguments for an industry organization of the Commission were cogent ones. The common carrier industries had little in common with the non-utility broadcasting industry except perhaps in the field of technology. There were even more striking differences between common carrier industries. The telephone industry was healthy, dynamic, and monopolistic. Its service standards were high; it carried on much of its own research and manufacturing. From a regulatory standpoint close cooperation with the state commissions was necessary. In contrast the telegraph industry was sickly with numerous and pressing financial and service problems. It was regulated almost exclusively by the federal agency. The international carriers were competitive and some were in bad financial straits. They were beset with peculiar problems arising out of their relations with foreign governments. Hence most of the more significant problems of regulation were and still are clearly demarcated along industry lines.

On the other hand, many important regulatory problems could be handled only with the closest cooperation between

the several functional parts of the Commission. The problem of rates, for example, was so interwoven with service technology, law, finance, and accounting that it could seldom be handled in isolation. The knotty problems of depreciation and valuation were problems of accounting, engineering, and law. In the survey report the comment was made that the investigators frequently heard that engineers were doing accountants' work, that accountants were doing engineers' work and that lawyers wanted to have the last say in everything. The survey recognized the fact that the titles of many positions might be changed and that the qualifications might well be broadened and made less specific.

The fault was not that there was no specialization within the staff. Each of the professional bureaus had divisions or at least men who confined their activities to problems of particular industries. But the professional type of organization could not place responsibility and authority for industry-wide problems. Nor was there any effective means of coordinating the work of the several professional bureaus.

It is now obvious that the professional type of organization could not cope with industry problems with any show of expedition. Many matters required no less than nine clearances before they were presented to the Commission. Approval had to be obtained from the division chief, the assistant bureau chief and the bureau chief of each of the three professional bureaus. Even then the bureau heads had to be called before the Commission in many cases.

Coordination of the work of the bureaus was made difficult by the lack of any agreement or understanding on work priorities. Thus in several instances one bureau was willing and able to give immediate attention to some problem

only to be hamstrung by the failure to get clearance from another bureau which considered the problem of minor importance or had even more pressing problems on its hands.

Many matters were handled by the staff without statement of policy from the Commission. For example, in the common carrier and probably in other fields, licenses for mobile services were handed out almost without restriction. The staff was not motivated to bring pressing questions of policy to the Commission's attention, nor was there any adequate mechanism for informing and instructing the Commission on technical matters.

The urgent and spectacular nature of the broadcasting problems diverted Commission attention from common carrier activities. The common carriers received possibly no more than a quarter of the Commission's time. A certain conciliatory attitude on the part of the Bell System toward toll charge reductions, its presumed efficiency and its technological progress stifled any regulatory urges that the Commission might have felt. The Bell System for its part was more than content to be let alone. During the war they took the position that rate adjustments would prevent them from giving their full time to the war effort and that lowered rates would bring more business than could be handled. After the telephone investigation was completed, it became more difficult to secure funds from Congress for common carrier regulation.

Whether the Commission's efforts were an adequate substitute for strong regulation is difficult to say. Certain pressing problems undoubtedly were neglected. The problem of Western Electric charges has not been solved. Certain studies pertaining to the cost of capital and operating efficiency have been allowed

to lapse. On the other hand, it should be stated that the Commission has not been able to secure funds from Congress to make a comprehensive survey of the telegraph industry and has been thrown back on a hand-to-mouth expediency in regulating telegraph activities.

The Reorganization Plan

The Koblenz survey contained complete recommendations for only a common carrier bureau. The arguments developed by the report for the industry type of organization were such cogent ones that the Commission came to the conclusion that even a partial organization was imperative. As a result the task of setting up a common carrier bureau was undertaken immediately. Similar surveys of other Commission activities also were instituted and as a result a Bureau of Safety and Special Services was set up. This is a field of activity where the volume of applications increased enormously since the war and where there has been a conspicuous need for changes in methods to meet the requirements of postwar conditions. Bureaus of broadcasting and field monitoring service are also contemplated. The activities not transferred to the new bureaus have been left for the time under the direction of their old chiefs who are now staff officers.

It is a basic principle of administration that all work that can be delegated should be delegated as far down the administrative hierarchy as possible. Considerable delegation is permitted by the Communications Act. Many of the problems coming before the Commission in the past were matters of administrative detail rather than quasi-legislative or quasi-judicial questions and had neither controversial nor policy-forming implications. The industry type of organization permits such delegation and holds

single individuals specifically responsible in a manner that was impossible in dealing with heads of professional bureaus.

The industry rather than the professional organization of the Commission appears so natural that it may be asked why it was not adopted sooner. Among the relevant considerations was the belief that an industry organization might have concentrated so much power in hands of the bureaus as to take them out from under the Commission's effective control. It was thought that the professional bureaus would act as checks on each other and thus give the Commission a basis for impartial evaluation of the many problems presented to it. Another factor was the fact that the Commission has been a dynamic one and has been involved successively in a multitude of pressing problems that had to be solved one at a time to the preclusion of other problems equally urgent. Problems can seldom be attacked simultaneously. Under such conditions the shaking-down process is quite likely to be long delayed; it often awaits a temporary lull in activities. Even then changes cannot be made recklessly. The costs of the changes including the risks involved, must be more than offset by the advantages of the new. The advantages of any existing pattern of authority and work routines are present and real, those of a new system are potential only.

Some of the traditional disadvantages of the industry type of organization do not apply to the F.C.C. The work of the Commission is extensive enough to justify a complete complement of professional specialists in each industry division. Hence a high degree of professional organization is still possible. The question is frequently raised as to whether chiefs of industrial divisions can logically possess sufficient training in all professional fields—engineering, law,

and accounting—to administer such a division adequately. The Koblentz survey report minimizes the problem and states:

"Many of the positions, both key positions and others, can be held by either attorneys, accountants, engineers, or by persons with other types of analytical training. The main requisite is not professional training and skill but administrative ability and knowledge of the field of regulation."⁸

Such a statement is not unexpected from those whose primary training has been in administrative fields but it is likely an accurate statement of fact. More significant, the variegated duties required of many key staff members under the cumbersome functional organization might well have contributed to the development of a wider range of understanding than would have been possible under conditions of better organization. Within limits there are long-run advantages to a type of organization that is not too specialized.

The Staff Officers

The former heads of the Accounting, Legal, and Engineering Bureaus respectively will become staff officers, their new duties being completely divorced from those they were assigned as heads of their bureaus. This marks a significant departure from the straight-line type of organization. In line with the staff principle of organization the duties of these officers will be those of advising the Commission and formulating methods and procedures for the line bureaus. Their duties will cut across bureau lines. Thus the Chief Counsel might be called upon to hand down uniform interpretation of the statutes under which the Commission operates. The Chief Accountant could be charged with responsibility for setting up uniform systems of accounts. The Chief Engineer could

⁸ *Management Survey*, op. cit., p. 34.

handle the problem of allocating frequencies between common carriers, radio broadcasting and safety and special services. In all of these matters, as well as in many others, there might be considerable inter-bureau disagreement and competition with no responsibility except that lodged in the staff officers to resolve the problems. Presumably the staff could give unbiased advice to the Commissioners. Such advice and counsel might act as a check on the industry bureaus which for many reasons might be placed in the position of special pleaders. The Staff officers may maintain liaison with other governmental agencies and could represent the Commission on Commission-wide and inter-departmental committees. The office of chief accountant also had under it an Accounting System Division and an Economics Division.⁹

A further interesting potential advantage of the use of the staff principle in this instance is that it serves to meet the criticism frequently levelled at administrative commissions that they are at once the prosecuting attorney, judge, and jury. It is not a reflection upon the integrity of either commissioners or their staffs to point out that it is sometimes felt that commission orders have often been unduly influenced by the opinion and counsel of their staff who in turn have been influenced by the strong position to which they committed themselves in formal proceedings before the Commission. Under the staff arrangement the Commission will have access to independent sources of technical or specialized advice apart from that of the staff members who are often themselves adverse parties in the proceedings. On the other hand some question might be raised as to whether parties to Commis-

sion proceedings might not well object to orders written and actions taken on the basis of advice and counsel that did not appear in the record and to which they had no opportunity to take exception.

There are other possible weaknesses of the staff organization. Conceivably the creation of staff officers might involve some duplication of effort. It also remains to be seen whether an advisory staff can function amicably with the industry divisions over which they have no direct authority but over whom they must exercise certain nominal controls.

Common Carrier Bureau

As previously pointed out the Common Carrier Bureau was the first of several industry bureaus to be set up. The Bureau in turn was divided into three main industry divisions, telephone, telegraph and international, plus the Office of the Chief, the Reports and Statistics Division and the Field Offices. There is also an Assistant Chief of the Bureau.

The administrative unit is responsible for files, supplies, mails and the general housekeeping functions of the Bureau. It can collect budget material. Following the traditional line-and-staff principle it is supposed to secure a certain amount of technical guidance from the Office of Administration of the Commission itself. The Reports and Statistics Division includes the old personnel and functions previously located in the Common Carrier Branch of the Accounting Bureau. The Field Coordination Unit integrates the field programs with the Washington office.

The organization and personnel of the new Bureau may be summarized as follows:

⁹ Federal Communications Commission. Release of March 9, 1950.

Telephone division.....	41 employees
Telegraph division.....	16 employees
International division.....	19 employees
Office of the chief.....	13 employees
Reports and statistics unit.....	12 employees
Field offices (Atlanta, New York, St. Louis, San Francisco)....	32 employees
	132 employees

The newly appointed division heads are all comparatively young men of energy and ability. This augurs well for the future. They come to their new position with a variety of backgrounds. They were selected primarily because of their broad knowledge and administrative ability, rather than because of any specialized knowledge. Should the new type of organization prove effective, it would belie the frequently made criticism of the non-professional basis of organization—i.e., that it is difficult to secure men competently trained to head bureaus which cut across professional lines.

Economics and Research Activities of the Commission

Economists who formerly worked in the Division of Economics and Statistics of the Accounting Bureau were transferred to an Economics Division in the Office of the Chief Accountant and will serve the Commission in a staff or advisory capacity. Special interest is to be attached to the position of economists in the organization in light of the broad scale, long-range planning that should inevitably be a part of any important commission's work. It is all too easy for analysts to become lost in petty details or to be forced willy-nilly into trifling and insignificant tasks. On the other hand those economists who could bring a broad outlook to the pressing problem of planning are too often so ill-informed about the details of the job as to practically negate any value their services might have.

The Commission furnishes some evidence of this common situation. The Commission employed only a limited number of economists and these have given most of their time to routine statistical work. Any large-scale program of economic research has been largely foregone. For example, a cost-of-money study, conceivably a study of tremendous significance, has been dragging on for several years.

Cooperation with State Commissions

The question might well be raised as to whether the Commission could not justifiably expand its research activities in such a manner as to benefit the state commissions. There is some reason to believe that state regulation of the monopolistic Bell System has been made less effective by virtue of the fact that the state commissions lack both standards of comparison and regular liaison lines to other state commissions. Generally a Bell company is the only telephone utility of its class under the jurisdiction of a state commission. State commissions commonly lack both interstate and intrastate standards of comparison. Given the resources, the F. C. C. might well become a valuable clearing house for regulatory information that normally might not be available.

The order establishing the Common Carrier Bureau specifically provides for cooperation with representatives of the state commissions and the National Association of Railroad and Utilities Commissioners. This Commission has given its support to a bill recently introduced in Congress (H. R. 7385) to permit the expansion of the field offices of the Commission and to permit the loan of staff members to the state commissions with the states paying the salaries and expenses.

Field Work of the Commission

The Koblentz survey came to the conclusion that the field staff of the Commission was inadequately manned. Nominally, it is supposed to maintain liaison with the carriers, but in many areas little has been done to determine whether the carriers are complying with the Commission accounting requirements. Other field offices apparently are needed for New England, Omaha, and Denver and perhaps for up-state New York. It was noted that the time of the field staffs has largely been given to handling the problems that arise from day to day and relatively little to the systematic checking of utility accounts.

Personnel and Administrative Procedures

The Koblentz Report also recommended a personnel training program. In the past the Commission has sometimes given promotion on the basis of seniority rather than ability or training. No organized effort such as characterizes the more progressive private corporations has been put forth to train employees for promotion. The report recommended an orientation program to give employees a better over-all picture of the Commission's activities and widen their horizons. It was also suggested that plans be made to have personnel tour the plants of the carriers. A third suggestion was that of shifting employees between Washington and the field offices. All of these suggestions are recognized practices in private business. The Report recommended regular staff meetings to secure an interchange of ideas on problems, to stop rumors and misunderstandings, to aid in the development of a total work program and to stimulate cohesive working relationships among the employees.

In recognition of the well-known fact that administrative officials in general are overburdened, the Report pointed out the three courses of action that could be

followed in handling the great volume of detail work that was normally brought to the attention of the Commissioners: (1) looking into each item and each situation submitted to the Commission for action, (2) reviewing a selected number of situations as a means of formulating policy for the staff and (3) getting a summary of actions taken by the staff after the formulation of policy. The report concluded that the third procedure was adequate, perhaps with a supplementary review of selected items.

An Evaluation of the Reorganization

Once the Koblentz Report gave the Commission a basis for judgment, it acted promptly in putting the reorganization into effect. Although the reorganization of the entire commission is not completed, the results attained in the sections affected appear to have been more than satisfactory. At the time the new plan was instituted it was hoped that the new bureaus might attain their old level of efficiency within six months. The reaction of the top staff men is that the Common Carrier Bureau is already handling its regulatory duties more expeditiously. The backlog of work has been attacked and policy problems have been studied. For example, policy towards Western Union office closures has been given close study.

The reasons are not far to seek. Young and energetic administrative heads have had their energies released to attack the problems besetting the Commission. Responsibility has been centered rather than diffused. It can no longer be shifted from bureau to bureau and thus be completely evaded. Decisions, right or wrong, are made. The levels of authority within the bureaus have been kept to a minimum, fewer approvals are needed.

On the whole the lines of cleavage be-

tween problems are more those of industries than of professions. Problems requiring joint consideration by several professional staffs are now generally within the bureau; the Common Carrier bureau chief gives only a small percentage of his time to conferring on problems beyond his industry responsibilities. It must not be inferred, however, that these problems are completely absent or minor in significance. Two important ones that might be mentioned are those of assigning blocks of radio frequencies to the various services (a problem that cuts across bureau lines) and the problem of integrating the telephone services of Western Union and the telegraph services of the Bell System.

The new type of organization will admittedly place heavier responsibility on the top level administrators. They no longer can escape responsibility by restricting their activities to the smaller spheres bounded by the professional training. The scope of the problems presented to them will of necessity develop administrative competence as well as a certain technical proficiency in all professional fields. However it is axiomatic that men are developed only by challenging their abilities.

The transition was made with surprisingly little friction. In most instances it was possible to transfer whole units, or substantial segments of units to the new bureaus. In such instances the disturbance to work relationships was reduced to a minimum. It is also interesting to note that there was no reduction in personnel directly traceable to the reorganization. This may come later. Civil Service rules are an important obstacle to removing certain pockets of inefficiency. Nor have there been any important salary increases or promotions, although some may be called for, once the organization "settles down."

Several minor considerations gave the Commission some concern before the industry-type of organization was adopted. It was feared that the bureau chiefs might be placed in a position to "spoon feed" the Commission. Under the professional organization each of the bureau chiefs served as a check on the others. The Commission presumably received the advantage of several viewpoints. Under the revised setup the industry units may become semi-autonomous, particularly if the span of the Commissioners' training and experience is short so that they come to rely upon their subordinates. Whatever its validity the offsetting arguments are compelling ones. The alternative of running a staff organization of some 1217 employees by what is at best a loose committee of bureau chiefs and at worst a small debating society, is unthinkable. Commission control over the staff can be retained by requiring periodic summaries of administrative actions and by the thoroughgoing review of a number of selected items.

As might be expected there was some fear among various sections and individuals as to the effect of the reorganization on their own personal status. Employees feared the loss of their jobs or the assignment to new and unfamiliar duties. Professional men feared loss of their professional status and dignity in a non-professional type of organization. In general, the devil who was known was less feared than the devil who was not. It could be expected that some would be disappointed by their failure to be promoted in the general shake-up. Most of these fears have now been quieted in the Common Carrier Bureau, although they still exist in those sections of the Commission not yet affected.

The Koblentz Report, and the various

studies and surveys pertaining thereto, constitute a most revealing study in the science of administration. The lessons should not be lost upon the Commissioners—or upon other commissions and

government agencies. With a willingness to profit from the lessons of the past, there is considerable reason to hope that the Commission will increase its effectiveness immeasurably.

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Recent Developments in Lease Financing

By ALFRED BORNEMANN*

RECENT developments in lease financing are of considerable significance. These developments began on a noticeable scale with changes in state insurance laws which permitted the acquisition by life insurance companies of real estate for investment purposes. At first, retail real estate properties were bought by these companies and leased back to the retail firms, but later industrial properties were included. More recently, railroad equipment financing has been facilitated in somewhat the same way. Although the details vary from agreement to agreement and from one type of property to another, the general rule is that the insurance companies arrange the financing and lease the particular property to the company which actually uses it in its operations.

In the first section of this paper the general developments will be described. The most important aspects of the arrangements in the leasing of retail and industrial buildings will be considered in the second part. The railroad equipment financing will be taken up in the third part. Finally, an effort will be made in the fourth part to appraise the arrangements and to draw conclusions.

I

The acquisition of real estate for investment purposes by life insurance companies began on a considerable scale with amendments to the life insurance laws by several states beginning with Virginia in 1942 and extending generally to other states in 1945, 1946, and 1947. Prior to that time the ownership of real estate by life insurance companies had been restricted in most states to property

used in the conduct of their business and such properties as were acquired in the satisfaction of mortgage debt. Properties acquired in the satisfaction of mortgage debt, however, had to be disposed of within a stated period. Although there had been no previous restrictions in the laws of some nine states and the District of Columbia, there had been no significant purchase of real property by companies in those jurisdictions prior to the time of the amendments to the laws of other states.

Although the life insurance companies had been permitted to make straight mortgage investments and in some states investments in housing developments,¹ the amendments authorizing them to acquire real property had the effect of permitting them to invest in such property and to lease it to the company actually using it. Of the increase in total real estate holdings of \$125 million in 1947 and \$190 million in 1948 well over half was estimated to have been in properties for investment purposes.²

Until 1946 the New York law restricted real estate investments by life insurance companies to mortgages and housing developments. The amendment which became law on April 5, 1946 provided that life insurance companies might acquire real property, with certain specified exceptions, up to a total cost not exceeding 3 percent of a company's admitted assets, provided that the

¹ Cf., U. S., Housing and Home Finance Agency, *Comparative Digest of State Statutes Authorizing Insurance Companies, Building and Loan Associations, and Savings Banks to Invest Funds Directly in Ownership and Operation, or Construction and Sale, of Housing Accommodations*, January 1, 1948.

² Bruce E. Shepherd, "Recent and Current Insurance Investment Trends," *Commercial and Financial Chronicle*, December 16, 1948, p. 22.

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cost of each parcel acquired under the amendment was not more than one-fourth of one percent of the insurer's admitted assets.³ The exceptions are property to be used primarily for agricultural, horticultural, ranch, mining, recreational, amusement, or club purposes. Presumably investments in such properties might not be sufficiently sound.

As a result of the change in the New York law, four of the so-called "big five" life insurance companies were authorized to acquire such real property. These four which operate under New York law are the Equitable Life Assurance Society of the United States, the Metropolitan Life Insurance Company, the Mutual Life Insurance Company of New York, and the New York Life Insurance Company. When the New Jersey law was amended in 1946 to permit life insurance companies to acquire housing properties and other real estate, the Prudential Insurance Company of America was enabled to make investments in such property similar to those authorized for the New York companies.

The laws of all of the states are not precisely the same, as can be readily noticed from a survey of their provisions.⁴ In New England, the Connecticut law, for example, authorizes life insurance companies to invest up to 5

percent of their total admitted assets in property of the kind under discussion. The New Hampshire provisions are similar except that approval of the insurance commissioner is required. In Massachusetts the companies are authorized to invest in commercial and industrial properties up to 3 percent of their assets, with a limitation of one percent in a single tract and a total of 20 percent of the assets in real estate. In Rhode Island the total book value of real estate is not to exceed 20 percent of the assets. In Vermont the total of this type of real estate which may be acquired is 5 percent of the total admitted assets; the specified standards which must be met include the requirement that the lease must be for 5 to 50 years and the property cost must be amortized during the period of the lease.

The total percentage of assets permitted in this form of property does not necessarily mean that particular companies will acquire the maximum. For instance, having in mind the possible problems which might arise from having to go into specialized businesses in the event of defaults, the financial officers of the John Hancock Mutual Life Insurance Company, Boston, stated that they do not expect this type of investment to absorb more than 2 percent of the company's assets at the most.⁵

Even before life insurance companies were permitted to buy property to be leased to operating companies, the practice of leasing rather than directly owning property was widespread practice in some fields.⁶ For instance, trucks had

³ Chapter 509, Laws of 1946. The law was further amended the following year to provide that the cost of each parcel acquired shall not exceed the sum of (1) one-half of one percent of the insurer's admitted assets up to and including \$250 million and (2) one-fourth of one percent of the insurer's admitted assets in excess of \$250 million. (Chapter 798, Laws of 1947). The companies were not permitted under the law to purchase certain property for income-producing purposes, but the Attorney General, in a ruling sought by the Superintendent of Insurance, gave an opinion to the effect that to include leasehold improvements would not be in conflict with the law provided they met the safety provisions specified for real property investments. (*The New York Times*, January 12, 1947.)

⁴ Such a survey for the New England states appears in the Federal Reserve Bank of Boston, *Monthly Review*, November, 1949, p. 2. The legal status of such purchases of real estate is given for all the states as of the end of 1947 in Mark Levy's "The Trend of Corporations to Sell their Real Estate to Institutional Investors," *Mortgage Banker*, November 1947, p. 14.

⁵ "John Hancock Life," *Fortune*, April 1948, p. 168. Levy found a number of companies definitely unfavorable to such purchases. (*Loc. cit.*, p. 13.)

⁶ William L. Cary cites an English case as early as 1882 involving such a lease transaction. ("Corporate Financing Through the Sale and Lease-Back of Property: Business, Tax, and Policy Considerations," *Harvard Law Review*, November 1948, p. 1.) Cf., also his "Sale and Lease-Back of Corporate Property," *Harvard Business Review*, March 1949, pp. 151-164.

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⁷ *Journal*
⁸ Chicago
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been leased on a large scale with the objective of avoiding the tying up of large sums in vehicles. According to one report, in 1948 some 75,000 trucks were being leased in 135 cities throughout the country.⁷ Retailers were also among the earlier companies to dispose of their real property in the form of stores and warehouses. For example, Safeway, Inc. (a food chain) sold many of its stores to investors before the life insurance companies entered the field. Before 1946 the principal buyers were the tax-exempt, privately-endowed colleges and universities, although other investors were probably also active.⁸

As the large life insurance companies entered the field, however, the trend toward disposing of real estate holdings by retailers increased. Among the companies which bought such properties as investments were the Equitable Life Assurance Society of the United States, the Metropolitan Life Insurance Company of New York, the Mutual Life Insurance Company of New York, the New York Life Insurance Company, the Prudential Insurance Company of America, the Northwestern Mutual Life Insurance Company, the Connecticut Mutual Life Insurance Company, the Aetna Life Insurance Company, the Connecticut General Life Insurance Company, the Penn Mutual Life Insurance Company, the Life Insurance Company of Virginia, the Lincoln National Life Insurance Company, and others. Equitable bought the Bonwit Teller Fifth Avenue store building in New York as well as the William Filene and Sons' Boston store building. Mutual of New York bought the Sears, Roebuck & Co. stores in Syracuse, Rochester, Buffalo, Brooklyn,

Newark, Hackensack, and Camden. Northwestern Mutual bought two of Sears' store properties in Milwaukee and Wausau, Wisconsin. The Life Insurance Company of Virginia bought Sears' Cincinnati store building. Connecticut General Life bought the land under the Goldblatt Bros., Inc., State Street Department Store in Chicago and leased it back, while an undisclosed purchaser bought an uncompleted warehouse unit from the same company. By 1947 Connecticut Mutual had bought 16 properties and had made 3 additional commitments; 8 were in New York, 8 in California, and one each in Illinois, Connecticut, and Ohio. Some of the tenants included F. W. Woolworth, J. J. Newberry Company, Whelan Drug Company, Inc., McCrory Stores Corporation, Lerner Stores Corporation (New York), and Hearn Department Stores, Inc. The same company expected to purchase retail store properties in other fairly large cities and lease them to chain organizations. Prudential bought three Chicago properties from Henry C. Lytton & Co. and leased them back. It also bought the Wright Aeronautical Corporation plant at Lockland, Ohio, and intended to offer it for sale. In 1950 it bought the \$20 million Lincoln Building in the Grand Central area of New York with the expectation of leasing space to various tenants.

At an early date attention was directed to industrial properties. As early as 1946 Metropolitan had leased for 30 years the Vanderbilt mansion property at Fifth Avenue and Fifty-first Street in New York from the Astor estate and planned to erect an eighteen or nineteen story office building for use by the City Bank Farmers Trust Company and the Crowell Publishing Company. The latter two companies in turn signed thirty-year leases for all the space. The rentals were

⁷ *Journal of Accountancy*, April 1948, p. 319.

⁸ Chicago, Cornell, Yale, Union, and Pennsylvania owned properties which were leased back to retailers. (Levy, *loc. cit.*, December 1947, p. 2., *Business Week*, January 4, 1950, p. 48.)

expected to provide Metropolitan with a satisfactory annual return on its investment after writing off the entire cost of the building during the life of the lease. At the end of the thirty-year period Metropolitan expects to restudy the situation with a view to renewing the ground lease and continuing operating the building if it is still satisfied with future prospects.

It was not long before attention was directed to manufacturing properties. Equitable, for instance, purchased a property from Westinghouse Electric and another from Fruehauf Trailer Co., both of which it leased back. By 1947 New York Life had contracted to finance the postwar expansion program of Continental Can, the second largest container manufacturer in the country.⁹ The plants were to cost about \$10 million and to be leased to Continental for a term of years. Equitable bought the plant under construction by Continental in Sacramento, California, and was to undertake the construction of plants in Weirton (West Virginia), Pittsburgh, and Chicago, the sites for which had already been bought by Continental in 1945 with the expectation of doing its own construction and of owning the plants.

Somewhat similar arrangements are now being made in the railroad equipment field. Early in 1950 Equitable announced it would buy new freight cars and lease them to railroads.¹⁰ Within two months announcement was made that the plan had been extended to diesel locomotives.¹¹ Equitable's authority to own railroad equipment as an investment and to lease it to the railroads appears to rest on an interpretation by the state insurance department to the effect that

transactions of this sort are comparable to investments in equipment trust certificates which are legal investments under New York law.¹² It is interesting to note that Northwestern Mutual, which does not operate under New York law, undertook to finance diesels for an eastern carrier under a conditional sale agreement. The railroad was to buy the cars but did not have to provide equity capital in the form of a required down payment as in the case of either equipment trust certificates or earlier conditional sale arrangements entered into with commercial banks. Northwestern Mutual took long-term notes while a New York bank took short-term notes for the balance.¹³

The favorable cash position of Pullman Inc. is said to have been a factor in its being the first railroad car manufacturer to complete an agreement since it could carry the unpaid 20 percent of the purchase price as required under the arrangements.¹⁴ The company had been working on the program for some time with the twofold objective of stabilizing the car-building business and at the same time of putting its cash balance to work. Pullman-Standard Car Manufacturing Company, its subsidiary, was to make the first freight cars under the arrangements.¹⁵ The first contract announced by Pullman-Standard was for 1300 new freight cars to be sold to Equitable which was to lease them to the Atlantic Coast Line Railroad.¹⁶ The

¹² *Business Week*, April 8, 1950, p. 94. Equipment trust certificates authorized for investments are defined as follows in the law: "Equipment trust obligations or certificates which are adequately secured or other adequately secured instruments evidencing an interest in transportation equipment wholly or in part within the United States and a right to receive determined portions of rental, purchase or other fixed obligatory payments for the use or purchase of such transportation equipment." Section 81, paragraph 4(b).

¹³ *Ibid.*, June 10, 1950, p. 101; *Wall Street Journal*, May 31, 1950.

¹⁴ *New York Herald Tribune*, April 9, 1950.

¹⁵ *Wall Street Journal*, April 1, 1950.

¹⁶ *The New York Times*, April 5, 1950.

⁹ *Business Week*, January 18, 1947, p. 72.

¹⁰ *Wall Street Journal*, March 27, 1950.

¹¹ *Ibid.*, June 1, 1950.

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transaction involved 700 cars to carry pulpwood and 600 covered hopper cars at a total estimated cost of about \$7½ million. The name of the railroad will appear on the cars but a plaque will be attached to each to the effect that title is held by Equitable. The New York Central also placed an order with Pullman-Standard for 15 box cars for which it negotiated with Equitable for a similar arrangement. Equitable also announced a larger deal with the Pennsylvania Railroad in which more car builders were involved.¹⁷ The same railroad arranged to lease box cars from General American-Evans Company, with 90 percent to be owned by General American Transportation Corporation and 10 percent by Evans Products.¹⁸

Incidentally, ACF-Brill Motors Co., a leading bus and trackless trolley manufacturer developed a method of leasing buses to municipalities and trackless trolley companies. Although the details were not revealed, the buyers were to make a down payment to ACF-Brill with the balance to be financed by the manufacturer over an 8- to 10-year period.¹⁹

II

As already indicated, in the retail and industrial transactions purchasers of land may build to their own specifications and then sell the improved property to an insurance company from which it is leased back for a number of years. Similar transactions involve the sale and lease of existing properties or the lease of properties to be constructed by the lessor to the specifications of the lessee. The leases are for a long term of 20 to 40 years, but sometimes even 100 years, and are often noncancellable or cancellable

only at a heavy penalty, such as payment of cash sufficient to return the remaining investment.²⁰ During the period of the lease the tenant pays current taxes, insurance, and maintenance costs, including repair of structural defects, and in effect therefore assumes all the aspects of ownership except the initial investment and the direct mortgage liability.

Rentals are based on the current return on investments plus amortization of the improvements over the term of the lease. Although the mortgage is thus extinguished over the period of the lease, some of the leases call for rental increases in accordance with an agreed-to scale, others for rental decreases, and still others for increases or accelerated payments under certain contingencies.

Some leases contain an option for the acquisition of the property by the lessee while others contain a requirement that the lessee purchase the property upon expiration of the lease. In some of them the price to be paid upon such repurchase is based on the fair market value or the depreciated book value, while in others it is an arbitrary and sometimes a nominal amount having little or no relation to the property's worth.²¹ Some leases provide for renewal at substantially reduced rentals. Some of the arrangements amount to an installment purchase of the property by provisions making the lease subject to the purchase of the property for a nominal sum or for an amount substantially less than the prospective fair value of the property, or by providing that the rental payments may be applied in part as installments on the purchase price, or by requiring rentals which are so far out of line with rentals for the current use of similar properties as to create the presumption that portions

¹⁷ *Wall Street Journal*, May 17, 1950.

¹⁸ *Ibid.*, May 24, 1950.

¹⁹ *Ibid.*, April 22, 1950.

²⁰ Arthur M. Cannon, "Danger Signals to Accountants in the 'Net-Lease' Financing," *Journal of Accountancy*, April 1948, p. 312.

²¹ "Disclosure of Long-Term Leases in Financial Statements of Lessees," *Journal of Accountancy*, November 1949, p. 386.

of such payments are actually partial payments under a purchase plan.²²

A study of a limited number of 1946 and 1947 annual reports revealed the following reasons given by those companies which gave their reasons for lease transactions of the sort under consideration:²³ (1) To provide funds for general purposes; (2) to complement working funds; (3) to provide funds for expanding sales; (4) to provide for a mechanization program; (5) to provide funds for merchandising operations; (6) to free capital invested in fixed assets; (7) to provide funds for capital outlays; (8) to provide funds for an expansion program; and (9) to provide for debt retirement. Another survey disclosed additional but similar reasons given for entering into such leases:²⁴ (1) It results in smaller debt structure or frees capital; (2) more working capital is needed because of present high prices; (3) refunding hazards are avoided by the simplified financial structure; (4) warehouse and retail locations are not always permanent; (5) there are tax advantages; and (6) larger inventories are possible.

In the postwar period of higher real estate prices profits could be made from the sale of existing buildings. Although such profits were subject to the capital gains levy, nevertheless a continuing tax advantage was expected because the rental payments on the leased buildings could be deducted as an expense and these rental payments are generally higher than depreciation would be, not only because they amortize the investment more rapidly, but also because they amortize the investment in land. Similarly, if new buildings were financed by debentures, provisions for the retirement of the debentures could not be

deducted from taxable income as could the rental paid for the same buildings if they were leased.

In one instance a capital loss was cited as an advantage in selling property and entering into a lease agreement. Other alleged advantages were that a strong working capital position could be maintained by a company which sold its property and then leased it back. Working capital would not be diverted to non-liquid assets by the construction of new buildings at the prevailing high costs. Bank loans would have the disadvantage of requiring interest payments and, in addition, banks were shying away from 10- to 15-year term loans in 1946 when the new arrangements were taking shape.²⁵ On the other hand, new securities would not have to be issued and long-term borrowing would not be necessary. Mortgage bonds would mean a fixed charge and preferred stock would add a fixed obligation before common. Moreover, in the lease arrangements no equity is required as when the conventional mortgage bonds are sold. The disadvantage of diluting the controlling equity by the sale of new securities would be avoided. In a period of relatively low security prices, too many shares would have to be issued in order to raise the capital. Furthermore, for some time in the period in which the new arrangements were beginning to flourish, the market was not receptive to any securities but prime grade, well-timed, and carefully-priced bonds.²⁶

However, it soon became evident that the extent of the advantages was limited. For example, in 1948 the cost of unsecured debentures of companies engaging in this sort of financing would have been 3 percent, whereas in the leases they were entering into they were paying

²² *Ibid.*, p. 389.

²³ Carman G. Blough, "Long-Term Leases," *Journal of Accountancy*, September 1948, p. 247.

²⁴ Levy, *loc. cit.*, November 1947, pp. 11f.

²⁵ *Business Week*, January 18, 1947, p. 72.

²⁶ *Ibid.*

one percent more.²⁷ If the merchandising companies had had to sell larger amounts of securities in order to cover all their stores, the cost of the debenture financing might have been higher, but under the circumstances it was the tax savings resulting from the deduction of rentals rather than interest which made the deals profitable.²⁸

Although some companies thought they were improving their working capital since they were not required to set up a contingent rental liability,²⁹ it is nevertheless obvious that the investor depends upon the credit of the lessee. The owner-lessee has ample security; the ordinary hazards of real estate ownership and the problems of management are removed by the terms of the contract; the owner is usually free of personal liability. In fact, the owner-lessee actually makes a prime investment in a contract calling for periodic payments which are in effect composed of interest plus a repayment of a portion of the principal.

In addition to the limitations which were discerned in these lease arrangements, actual improprieties in reporting the transactions were also pointed out. Thus, although the investments in retail and other buildings were set up as assets on the books of the investors, the lessees did not show the liabilities on their books. Their balance sheets did not indicate that they had pledged their credit. Nor did the leaseholds appear as deferred charges. It could therefore be said that the deals were financial moves on the part of the lessees to pledge their credit without showing a liability on the balance sheet. This indictment was especially appropriate when

the reasons given were admittedly the need for funds, the desire to conserve borrowing power, or the wish to hold open a line of credit.

While it was not customary in the past for companies renting properties to disclose the existence of leases or of annual rentals, the new long-term lease arrangement as substitutes for ownership and mortgage borrowing, together with the accompanying failure to show either the asset or the liability, led to serious inquiry on the part of accountants into the question how far disclosure should be made. Cannon's article³⁰ and Blough's comments³¹ were significant steps in calling attention to the problem. The latter referred, among other things, to a 1948 case cited by one of his correspondents in which a corporation had a lease with 80 years to run and, in order to escape excessive rental, paid the owner of the land \$441,250 which was \$241,250 in excess of the value of the land. The Securities and Exchange Commission became interested in the general problem, and at the request of its chief accountant, the Committee on Accounting Procedure of the American Institute of Accountants considered the question of what disclosure should be made on financial statements.

The Committee's recommendations³² were prepared to apply not only to the new type of lease arrangements, but also to conventional long-term leases as well. They do not apply to short-term leases or to those customarily used for oil and gas properties. The judgment of the Committee was that material amounts of fixed rentals and other liabilities maturing in future years under long-term leases as well as possible related contingencies

²⁷ Cannon, *loc. cit.*, p. 315.

²⁸ Levy, *loc. cit.*, November 1947, p. 12.

²⁹ Brokers of these leases made a point of the fact that in accounting practice rent is included in operating expenses "ahead of" interest in the profit and loss statement, thereby implying that a lease arrangement would also "improve" the profit and loss statement along with the balance sheet. (Cannon, *loc. cit.*, p. 313.)

³⁰ *Loc. cit.*, pp. 312-319.

³¹ *Loc. cit.*, pp. 247-249.

³² "Disclosure of Long-Term Leases in Financial Statements of Lessees," (Accounting Research Bulletin No. 38), *Journal of Accountancy*, November 1949, pp. 388f.

are material facts affecting judgments based on the financial statements of a corporation. Hence, the opinion was expressed that disclosure should be made in the financial statements or in notes thereto of (1) the amounts of annual rentals to be paid under such leases with some indication of the periods for which they are payable, and (2) any other important obligation assumed or guarantee made in connection therewith. It was added that this information should be given not only in the year in which the transaction originates but also as long thereafter as the amounts involved are material. Moreover, the opinion was expressed that there should be disclosure of the principal details of any important sale and lease transaction. If the transaction is in substance a purchase, then the so-called leased property should be included among the assets of the lessee with suitable accounting for the corresponding liabilities and for the related charges in the income statements.

III

In the railroad equipment financing, Equitable's plan is based on the purchase agreement between Equitable and the equipment manufacturer on the one hand and the lease agreement between Equitable and the railroad on the other. Under the purchase agreement with the car manufacturer, Equitable makes a down payment of about 80 percent of the cost of the freight cars and agrees to pay the 20 percent balance to the manufacturer in equal installments over a period of five years so long as the rentals on the cars are received from the railroads. Under the lease agreement with the railroad, Equitable agrees to lease the cars to the railroad for a term of 15 years and gives the railroad the option of returning them to Equitable at the end of that period or of continuing to lease all

or any of them for an additional term of up to ten years at 20c a day.³³ According to railroad men, the first cars were leased at the rate of \$1.55 a day for the first five years and \$1.10 a day for the next five years.³⁴ The lower rate will come when maintenance costs increase. The terms may be varied somewhat, however, depending on the equipment needs, the cost of the cars, and the financial status of the individual railroads with which agreements are made.

For the insurance companies anything received for the cars in rentals after the 15-year initial period or from their ultimate sale as scrap is additional net income. The railroads do not have to make any initial cash outlay as they do in financing equipment with equipment trust obligations, in which case they customarily deposit initially 20 percent and in some instances 25 percent of the cost of new cars in cash, the balance being equipment trust certificates. On the other hand, however, they do get title to the cars when the equipment trust certificates are retired, whereas title remains with the insurance company under the new arrangements.

Cars have to be practically rebuilt after 20 years and it may be more economical to scrap them; this will be facilitated by the rental arrangements which may therefore result in a tendency to use more modern equipment. At the same time, Pullman and other railroad car manufacturers which enter the field may derive an advantage from the possible minimizing of fluctuations in the demand for equipment.

The thought was also expressed that, while freight cars are depreciated for tax purposes over 29 or 30 years, the new arrangements would presumably make it possible to charge off the daily car

³³ *Wall Street Journal*, March 27, April 1, 1950

³⁴ *Ibid.*, April 1, 1950.

rentals for tax purposes, which would be equivalent to accelerated depreciation.³⁵

In the diesel financing, Equitable makes a down payment of 90 percent and pays the remainder in five years. The equipment manufacturer provides the 10 percent equity. Title remains with the insurance company which leases them to the railroads for fifteen years with the rental payments to be made quarterly.

IV

The fact that the railroad equipment financing is of fairly recent origin suggests the possibility that the lease type of financing may develop further. This is especially so since life insurance companies and other investors continue to have the problem of large sums for investment in relation to satisfactory investment outlets. In view of the possibility of wider application of this method of financing, it would be somewhat presumptuous to draw any purportedly definitive conclusions at this time.

The likelihood of a continuing interest on the part of life insurance companies in the various possibilities is, however, evident. Their investment funds have been increasing at the same time that satisfactory investment outlets with favorable returns have been decreasing. With declining interest rates, returns have decreased and hence more favorable outlets have been sought. The companies have for some years been buying securities on the legal lists directly through private placement. They have become interested in loans formerly made by commercial banks. They have been making investments in large-scale housing developments. They have been permitted to buy real property for investment purposes. Finally, there is agitation for permission to buy common stocks

in those states where their purchase as investments is as yet not permitted. The developments reflect the cycle in which government deficit spending, increases in the money supply, lack of venture capital resulting from high surtaxes and other factors, the search for investment security, the accompanying acquisition of tremendous funds for investment, declining interest rates, and an apparent inability to invest the funds except in equities, have all played their part.

The stimulus provided the capital goods industries by the leasing arrangements is difficult to assess, particularly in the case of the retail and industrial leases. It is possible to hazard the guess, however, that expectations engendered by the railroad equipment arrangements during the early months of 1950, before the outbreak of the Korean incident, may have been a significant factor in the upturn of economic activity at that time. Optimistic general statements regarding the effects of such financing were fairly widely publicized. Equitable estimated that the replacement of all cars 20 years old would cost \$5 billion. A single order for such equipment was publicized as the largest since the 1920's.³⁶ Representative Celler of New York, while concerned with the possible danger that the railroads might ultimately become dominated by the insurance companies and therefore more convinced than before of the need for his proposed federal regulation of insurance companies, nevertheless by implication added an optimistic note so far as immediate anticipations were concerned when he suggested that the programs which might be worked out might go further than providing for freight cars and diesels and include passenger locomotives, passenger and

³⁵ *Ibid.*

³⁶ *The New York Times*, May 17, 1950.

parlor cars, and even provide funds for electrifying railroads.³⁷

In the event of financial difficulties in a possible depressed period the life insurance companies might be likely to become somewhat actively concerned with different types of industries. Although they provided themselves considerable protection in the agreements, the value of the specialized properties of the lessee companies would probably not be maintained in the event their financial safety were in jeopardy. The safety of railroad equipment obligations which have been traditional in the financing of railroad cars depended in part on the limited number of cars. Should the new financing encourage the construction of a great many more cars than would otherwise have been built and financed with equipment trust certificates, it is possible that some of this safety will be lacking.

Meanwhile, investment banking firms have been disturbed by the fact that they are not participating in the financing process. In connection with the railroad equipment financing, for example, it was estimated that a profit of \$200,000 was lost to the underwriters by the avoidance of equipment trust financing in the Equitable arrangement to buy 10,000 cars for \$50 million and lease them to the Pennsylvania Railroad.³⁸

While traditional securities are not being issued under the new arrangements, fixed charges are nevertheless being added in all of the leasing arrangements during a period of prosperity. The capital being made available for investment is itself a contributing factor to the prosperity. Whether such investments will prove to have been justified on the

basis of their future earning capacity is a question which should be raised even though it cannot be answered at this time.

In all of the arrangements the lessee companies do not have to provide equity capital either through stockholders' subscriptions or reinvested earnings. In the leasing of buildings to retail and manufacturing firms, the insurance companies attempt to protect their investments by fairly strict provisions in the leases; such clauses may therefore be considered as in the nature of substitutes for risk capital. At the same time it must be recognized that the leases were generally entered into not only with strong companies but also with companies in the more stable industries. In the leasing of the railroad equipment, the responsibility for the equity capital is borne by the equipment manufacturers. Railroad equipment manufacturing has, of course, been an unstable industry and therefore it would perhaps be presumptuous to suggest the even remote possibility that the insurance companies might ultimately finance them indirectly by buying their buildings and leasing them back. Yet if the optimistic possibilities of stabilization of railroad equipment output were in some measure achieved by the equipment leasing arrangements, the equipment manufacturers would in turn be good prospects for leasing arrangements involving their own buildings.

Meanwhile, the stockholders of the lessee companies are, in any event, deriving the benefits of equity capital provided by others. Whether these benefits will be to any extent permanent is, of course, a question which cannot be answered with any finality at this particular moment.

³⁷ *Ibid.*, March 29, 1950.

³⁸ *Wall Street Journal*, May 18, 1950.

Legal Problems in Father-Son Farming Operations

By HAROLD H. ELLIS*

FATHER-SON farm-operating agreements have received considerable attention from research and extension workers in recent years, and have been the subject of several bulletins and articles.¹ Rightful attention has been given to the economic and social advantages of such agreements. I do not propose to recount all of their numerous advantages here. It will suffice to say that because of the large amount of capital needed to get started in farming these days, father-son agreements are becoming increasingly important as a device whereby young men can get started with little or no capital and accumulate it gradually as they go along. Such agreements may also contribute to better maintenance and more efficient use of farm resources, especially during the father's declining years. Too often, however, insufficient consideration is given to the legal problems involved.

In the first place, economists should become more familiar with the types and nature of available legal relationships for achieving the desired arrangements between father and son (or sons) in their farming operations. This need has been recognized in a recent article by Marshall Harris, entitled "A New Agricultural Ladder," in the August 1950 issue of *Land Economics*, pp. 258 to 267.

Within the framework of our body of laws certain legal relationships have grown up and a set of governing principles has been applied to each. The consequences of creating a particular

legal relationship, in several respects, may depend upon the terms of the agreement and the conduct of the parties. But the law itself may create specific consequences as to those matters about which there is no agreement. Moreover, the creation of a particular type of relationship may lead to certain consequences no matter what the agreement between the parties. Therefore, deciding which legal relationship to select may be of considerable significance, and perhaps equally significant are precautions that may be taken to avoid or protect against undesirable consequences of the type selected. If father and son have a misunderstanding, or get into a dispute with a third person, they may be faced with consequences they did not intend, or had not even considered. And it is especially important to consider what would happen if either should die unexpectedly.

A wide variety of legal relationships may exist between a father and son throughout the period of their farming relations. The son may be his father's employee under a straight wage or wage plus income-sharing arrangement. He may be employed as manager of the farm. Other possible legal relationships include partnership, limited partnership, landlord-tenant, and corporation. Moreover, combinations of these relationships may exist between father and son. For instance, they may be employer and employee with respect to one production enterprise and partners with respect to another.

A father and son will want, first of all, to have an arrangement which attains the economic and social purposes they

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¹A list of recent bulletins on this subject is included in Edward J. Coc, "Father and Son Farm Agreements," *Wisconsin Law Review*, March 1950, pp. 316-33.

have in mind. Their farming relations may involve a gradual transition from the son's having a livestock or other project, to his participation in one or more farm enterprises, to joint operation of the entire farm, followed by the father's eventual retirement. Or they may begin with the son as an employee, or with some type of joint operation.

Regardless of how they start out, father and son will often get best results if, sooner or later, they reach what could be described as a middle stage in their operations. Many fathers and sons are now in this stage. That is, both take an active part in the operation and management of the farm, on about an equal basis, and share the profits. With such an arrangement, however, their choice of legal relationship may be rather limited, as we shall see. The arrangement also presents other unique legal problems. For this reason, the middle stage of father-son operations is the focal point of our discussion. A number of the legal problems considered, though, may also arise in other stages of operation.

Father-son farming operations may often lay the groundwork for transfer of the farm to the son and arrangements for eventual transfer may often be made while such operations are carried on. However, problems involved in transferring the farm are excluded from the scope of this discussion (although attention will be given to the problem of protecting the son's investment in farm improvements). Also excluded are legal complications created by reason of the son's being a minor. Of necessity, this discussion is primarily concerned with the law as it is generally found to exist. Bear in mind that statutory laws and court decisions vary by states. Consequently, contrary principles, in some respects, may be adhered to in different states.

Partnerships

During the middle stage of their operations, as herein defined, father and son may wish to form a partnership, which at this stage is easily created. No written contract is necessary to bring it into existence. In fact, their oral agreements and the way in which they conduct the farm business may give rise to a legal partnership without their being aware of it. In several ways, a partnership is well adapted to their possible needs and desires. There may be a sharing of profits and losses, equal participation in management and operation, a joint bank account, contributions of property to the business by each partner, and joint (undivided) ownership of property contributed.² The partnership, as a separate entity, may acquire title to personal property and, in many states, to real estate. Nevertheless, a partnership has certain legal consequences that should be carefully considered.

The law provides that specific consequences shall result from the creation of a partnership. However, many such consequences may be altered by the agreement between the partners. By the Uniform Partnership Act, which is in force in most states,³ partners are entitled to share equally in the profits of the business and, unless otherwise agreed, each must bear a share of any loss in proportion to his share of the profits. Just what is meant by "profits" is not too clear. A father and son would do well to have a definite agreement concerning the distribution of income and expenses. As partners, they are also entitled to participate equally in the management and operation of the part-

² Crane on *Partnership* (St. Paul, Minnesota: West Publishing Co., 1938) sec. 14.

³ The Act has been adopted in 29 states and Alaska. See 7 U.L.A. (Supp. 1949) Table III.

nership business unless otherwise agreed.⁴ But either may be given the exclusive management and conduct of certain production enterprises.

Personal property contributed to the partnership stock by either partner, or otherwise acquired by or on behalf of the partnership, may be considered by a court to have become partnership property.⁵ The former interest of a partner in property which has become partnership property is replaced by an undivided interest in partnership assets and profits. No partner has an exclusive right to any part of the partnership property.⁶ Therefore, if father or son wishes to contribute merely the "use" rather than the "ownership" of certain property to the partnership, he would do well to see that there is an explicit provision to this effect in the written agreement (if any) and that a clear record of ownership interests appears in the partnership account book. So also with respect to any increase in such property. These precautions may be especially important in the event one partner dies, leaving the other to deal with his estate.

Upon the death of either partner the survivor is under a duty to wind up the partnership business without delay unless some arrangement has been made for its continuation. The survivor is vested with some discretion in the way he closes out the business and the time to be taken for that purpose. But it might be helpful to provide that the partnership business shall not be wound up, say, until all growing crops are harvested. In some states, the survivor may have to put up bond before he proceeds to close out the business.⁷

Being in the position of a trustee, the survivor may not be able to sell the deceased partner's interest to himself, although he may arrange to buy it from the legal representative of the decedent. Courts scrutinize such transactions rather closely to see that no undue advantage is taken.⁸ Unless some definite arrangement has been made, the farm livestock and equipment owned by the partnership may not be kept intact, for the surviving partner may not succeed in arranging to buy out the deceased partner's interest. The partnership agreement may provide that upon the death of either partner the survivor shall be entitled to purchase his interest or the father's will may provide that the son may buy out the other heirs.⁹ But it may often be difficult for the survivor to make such purchase unless the stipulated terms of payment are favorable, or unless he has considerable funds at his disposal. Life insurance policies may be taken out to provide all or part of the purchase money. Consideration must be given, however, to who shall own, who shall be beneficiary, and who shall pay the premiums on each policy to avoid undesirable tax consequences.¹⁰ These provisions should be drawn up by a competent attorney.

By the Uniform Act either partner or, if deceased, his legal representative, or any partnership creditor, may upon termination of the partnership demand that all partnership assets be sold to pay off creditors and distribute any surplus in cash.¹¹ But any agreement made concerning the distribution of assets

⁴ *Sierman v. Ziem*, 17 Cal. App. 2d 414, 62 p. 2d 160, 163 (1937) 7. U.L.A. sec. 18(c).

⁵ 7 U.L.A. sec. 8; 40 Am. Jur. 203.

⁶ *Svirsky v. Horwich*, 382 Ill. 468, 47 N.E. 2d 452 (1943); 40 Am. Jur. 210; 7 U.L.A. sec. 26.

⁷ *Campbell v. Bohan*, 148 Kan. 205, 80 P. 2d 1110 (1938); 40 Am. Jur. 327 and 333.

⁸ *Phillipson v. Phillipson*, 302 Mich. 84, 4 N.W. (2d) 477 (1942); 40 Am. Jur. 345, et. seq.; 7 U.L.A. sec. 21 and Commissioner's note and note 12 thereunder.

⁹ *Ireland v. Lester*, 298 Mich. 154, 298 N.W. 488 (1941) 40 Am. Jur. 346; 1. A.L.R. (2d) 1266, et. seq. (1948).

¹⁰ G. R. Currie, "Buy and Sell Agreements with Respect to Corporate and Partnership Interests," *Wisconsin Law Review*, January 1950, pp. 12-27.

¹¹ 7 U.L.A. sec. 38 and Commissioner's note. For rules of distribution, see 7 U.L.A. sec. 40.

would appear to be controlling. For instance, father or son may be given the option to buy the other's interest upon termination of the partnership or whenever the other desires to sell. The terms and conditions of such an option and the consideration therefor should be clearly stated; and care should be taken otherwise to avoid possible invalidity.

The creation of a partnership may result in certain consequences, *no matter what father and son have agreed to*, such as the following.

1. *Liabilities in Business Dealings with Third Persons.* By and large, each partner has the authority to act on behalf of the other for the purpose of carrying on the business, and he may bind his partner without his consent by incurring debts, entering into contracts, and making sales of partnership crops, livestock, and other property "in the usual course of business."¹² Father and son may agree to certain limitations upon such broad authority. For example, they may agree that neither shall have the right to bind the other in making cash sales or purchases that involve more than a certain amount without mutual consent, nor in incurring debts, otherwise entering into contracts, or making purchases on credit without his written consent. But some limitations will protect each partner only if those third persons with whom the other has dealings have been informed concerning them.¹³ It is not generally possible to put all third persons on notice of the terms of the partnership agreement by recording it. Therefore, it might be well for father and son to inform those with whom they expect to do business about any limitations they may have agreed to.

It should be noted in passing, that in

some states a partnership *certificate* must be filed as required by statute. Often, however, the statutes provide that this need be done only so that the partnership may acquire access to the courts, and only if the partnership name does not include the names of the partners. This filing is *not* effective to put third persons on notice of any limitations on authority included in the partnership *agreement*.

A potential creditor may make certain inquiries and investigations if a sizable debt is incurred and may require the father to sign any note or other written evidence of indebtedness given by the son, or vice versa. Avoiding a joint checking account or placing limitations on its use will not prevent third persons from reaching partnership property and the personal assets of each partner to satisfy claims against the partnership. But it will serve to increase the effectiveness of any limitations that have been agreed upon, as each will not have unlimited access to a common fund.

If father or son incurs such liability through the violation of any agreement between them, he may be entitled to recover damages from the one who violated the agreement, but he may first have to request that the partnership be dissolved.¹⁴ Moreover, the guilty partner may not have sufficient assets to fully repay the other for such damage.

2. *Liability for Partner's Torts.* "Tort" is the definition applied to any wrongdoing in the eyes of the law, other than a crime or breach of contract.¹⁵ Negligence which results in injury to the body or property of some third person is one example. Each partner may be held liable to third persons for any *torts* committed by the other in the usual course of the business.¹⁶

¹² The Uniform Act provides that each partner may bind the other by all acts which appear to carry on the partnership business in the usual way, including the execution of any instrument in the partnership name (7 U.L.A., sec. 9).

¹³ 7 U.L.A. sec. 9(1); Mechem, *Elements of Partnership* (1920) sec. 244.

¹⁴ 40 Am. Jur. 457 and 460; 168 A.L.R. 1097, et. seq.

¹⁵ Black's *Law Dictionary* (1910).

¹⁶ *Schloss v. Silverman*, 172 Md. 632, 192 A. 343 (1937); 7 U.L.A. sec. 13.

Two things may lessen the seriousness of such liability: First, if an innocent partner is sued by a third person for the *tort* of his partner and he has to pay a judgment on that account he may have recourse, for what it may be worth, against the guilty partner for reimbursement.¹⁷ But the innocent partner may first have to ask that the partnership be dissolved. Second, protection against most such liability may be obtained through insurance (within limits of liability covered by the particular policy). Father and son may jointly take out farmer's comprehensive personal liability insurance as protection against liability for those *torts* committed by either partner which result in bodily injury or property damage to third persons.¹⁸ These policies usually contain certain exceptions where the operation of a motor vehicle is concerned. But automobile and truck, as well as tractor and implement, liability insurance may be taken out as protection to cover these exceptions.

3. *Liability Where Partnership Employees are Concerned.* Each partner may be held liable to third persons for the *torts* of, and be bound by the acts of, any employees of the partnership within the scope of their employment.¹⁹ But father and son may secure protection against liability for those *torts* of partnership employees which result in bodily injury or property damage to third persons through farmer's comprehensive personal liability insurance. Also, partners may, in certain instances, be held liable for injuries to partnership employees in the course of their employment.²⁰ But they may jointly take out employer's liability or workmen's compensation in-

surance as protection against this possibility.

Extent of Above Liabilities. Liability for obligations incurred and *torts* committed in the way discussed above is of an unlimited, personal nature. This means that each partner's personal assets, including his separate property, as well as his investment in the partnership, may be held liable. As a matter of procedure, in enforcing debt and contractual liability any lawsuit must first be brought against both partners jointly, but any judgment may eventually be satisfied, if need be, from either partner's personal assets. In enforcing *tort* liability, suit could be brought against either father or son in the first instance.²¹

Many states by statute permit the creation of a *limited* or *special* partnership (by adhering to certain requirements) in which each *limited* partner's liability is limited to his capital investment plus his share of undistributed profits. But there must be at least one *general* partner, active in the business, whose liability remains unlimited. Furthermore, if any *limited* partner participates in managing or carrying on the business he may thereby incur unlimited liability, the same as a *general* partner.²² The relationship is designed to accommodate those who wish merely to invest in a partnership business, rather than take an active part in it.²³

¹⁷ 7 U.L.A. sec. 15, Commissioner's note and notes 7 and 21 thereunder. Such liability for a willfully committed *tort* may not be discharged in bankruptcy. Crane on *Partnership* (1938) sec. 64; 11 U.S.C.A. (Supp. 1949) sec. 35a(2).

¹⁸ Mecham, *Elements of Partnership* (1920), sec. 481; Crane on *Partnership* (1938) sec. 26.

¹⁹ In Michigan and a few other states a *partnership association* may be formed. Each member's liability is limited to his capital investment plus his share of undistributed profits. There need be no *general* partner who remains liable without limit. The association partakes of the nature of an informal corporation and may often be taxable as a corporation. At least 3 members and managers are usually required. See 14 Mich. Stat. Annot. 773, et. seq. To meet this requirement, if only one son is farming with the father, the mother or the son's wife may have to become a member and manager of the association.

¹⁷ Crane on *Partnership* (1938), sec. 68 (at. p. 303).

¹⁸ See Ralph R. Botts, *Insurance for Farmers*, Farmers' Bulletin No. 2016, United States Department of Agriculture.

¹⁹ Prosser on *Torts* (1941), sec. 63.

²⁰ Crane on *Partnership* (1938) sec. 54(d).

4. *Right to an Accounting.* [Each partner is entitled to a formal accounting from the other before a court, although this right can usually be enforced only by asking that the partnership be dissolved.²⁴ In case either partner dies the survivor may be called upon for an accounting. It may be possible in several states for father and son to agree that all disputes, even those in regard to terminating the partnership and to winding up partnership affairs, shall be submitted to arbitration by designated persons. Questions of law would be reviewable by a court. However, in some states, agreements to submit future disputes to arbitration are held to be unenforceable.²⁵

5. *Ease With Which Relationship May Be Terminated.* A partnership may be terminated at any time by mutual consent and the business wound up outside of court. If no definite term has been agreed upon, as a general rule, either partner may terminate the relationship at any time against the will of the other. Also, under certain conditions, either partner may have a court declare a dissolution before the end of the term agreed upon. Among grounds for such dissolution are: (a) a partner's willful or persistent breach of the partnership agreement, (b) a partner's becoming incapable of performing his part of the partnership agreement, (c) inability to carry on the business, except at a loss, and (d) disagreements so serious that all confidence between partners is destroyed.²⁶

By the Uniform Act any partner may *wrongfully* dissolve the partnership at any time before the end of the agreed term, leaving himself liable for any damages resulting. The innocent partner may carry on until the end of the term only if

if he (a) pays the wrongdoer the value of his interest in the partnership at time of dissolution, less any damage, or (b) secures such payment by giving a bond approved by a court.²⁷

Attempts to Create a Nonpartnership Agreement: Difficulties and Precautions

To fulfill their needs and desires during the middle stage in their operations, as herein defined, father and son may wish to have an arrangement closely akin to a partnership. They may wish to share profits and losses, to participate in the management and operation of the business on about an equal basis, to have a joint bank account, and to establish joint rather than separate ownership of personal property used in the business.

These features are all earmarks of a legal partnership.²⁸ Yet, for one reason or another, father and son may not wish to form a partnership. But this creates a difficult problem. Remove any of the features that typify a partnership and the chances of avoiding it may to some degree be enhanced. But to have much chance of preventing its formation, the parties may have to give up some possibly desirable arrangements, such as a joint bank account and joint ownership of much of the property.

Moreover, such a nonpartnership arrangement does not appear to be generally recognized under the law. There is some possibility that the arrangement would be classified by a court as the relation of landlord and tenant rather than partnership, but the father may often live on the farm, take a more active part in the management and operation of the farm business, and share more of its expenses than a landlord customarily does. Anyway, a court (in deciding a particular question) may consider a landlord and

²⁴ 7 U.L.A. sec. 22 and note 3 thereunder.

²⁵ 135 A.L.R. 80, et. seq. (1941), 6 C.J.S. 158.

²⁶ 7 U.L.A. sec. 32.

²⁷ 7 U.L.A. sec. 38.

²⁸ 40 Am. Jur. 145, et. seq.

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tenant to also be partners.²⁹ Aside from partnership or landlord-tenant, no other legal relationship now commonly recognized by the courts would appear to be applicable. The arrangement could not be called a corporation unless father and son have gone through the process of incorporating, and as father and son are on about an equal managerial basis, and for other reasons, it does not fit into the employer-employee category. If they are on a rented farm they could be considered simply co-renters, but they would likely be considered partners as well.

Courts recognize a relationship termed "joint adventure," but they usually apply partnership principles to it.³⁰ It is often considered a special purpose partnership, i.e., for the purpose of carrying out a single transaction, as distinguished from a business. At least one court has recognized a nonpartnership relation termed "joint business for common benefit,"³¹ but this was for income tax purposes. Decisions for tax purposes are not necessarily followed in other cases. In some states courts have found persons to be merely "tenants-in-common," rather than partners. Usually, however, the question before the court involved only the parties' respective rights in crops or other property.³² If such an issue as liabilities to third persons had been involved, the court might have taken a different attitude. If father and son rent the farm of another, the courts might consider them to be simply co-lessees of the farm owner without applying any other legal label to the arrangement between them. But each co-lessee may be held to be also the partner of the other.

In attempting to avoid a partnership too much reliance may often be placed

upon including in the written agreement, if any, an express disclaimer of a partnership coupled with a denial of any authority in one party to bind the other without his written consent. The effectiveness of such a denial in avoiding a partnership will be lessened by allowing, as may often be done, sales and purchases up to a certain monetary limit to be made by one without the consent of the other. Furthermore, as it is often held that there is no single test of a partnership,³³ courts usually do not feel compelled to find that no partnership exists simply because of such provisions. This is especially true with reference to the express disclaimer of a partnership. Several courts have said that if the intention is to do those things which in law constitute a partnership, a partnership results even though the parties declare their intention not to create it. The agreement *as a whole*, the conduct of the parties, and the surrounding circumstances may be considered in deciding the question.³⁴

Because of differences in court decisions it may be easier to prevent the formation of a partnership in one state than in another. Only one thing is universally agreed upon. There must be some sharing of profits or there can be no partnership. Although an agreement also to share losses is strongly indicative of a partnership it is not, in most states,

²⁹ *Crane on Partnership* (1938) sec. 14; *Malvern Nat. Bk. v. Halliday*, 195 Iowa 734, 192 N.W. 843 (1923); *Whayne Supply Co. v. McGowan*, 280 S.W. (Ky.) 491 (1926); 7 U.L.A. sec. 7 and notes thereunder. Some courts describe a particular test as being the true test of a partnership. Some tests which have been so described by various courts are: (1) The legal intention of the parties. (2) Sharing profits "as profits" rather than as compensation for services or the use of property. (3) Mutual principal and agent relationship. (4) Mutual powers of ultimate control over the business. See, for example, *Black and Co. v. Soeffing and Meyer*, 241 Ill. App. 40 (1926). Generally, however, other factors are also alluded to as reasons for finding a partnership to exist, or not to exist.

³⁴ *Greenstone v. Klar*, 69 N.Y.S. (2d) 548 (1947); *In re Mission Farms Dairy Co.*, 56 F(2d) 346 (1932); 7 U.L.A. sec. 7 and notes 48 and 54 thereunder, *Rubenstein v. Small*, 75 N.Y.S. (2d) 483 (1947).

³⁰ 131 A.L.R. 508, et. seq. (1941), 51 C.J.S. 514.

³¹ "Joint Adventure or Partnership," *Fordham Law Review* 114-32, Mr., 1949.

³² *Sugg v. Hopkins*, 11F(2d) 517 (1926).

³³ 52 C.J.S. 743, et. seq.

considered essential to its creation.³⁵ A partnership is defined by the Uniform Act as an association of two or more persons to carry on a business for profit as co-owners.³⁶ But this definition often is not very helpful in determining whether a partnership exists. "Co-ownership of the business," for example, is often held to require co-ownership of profits but not of property used in the business.³⁷ The Uniform Act also provides that the criteria for determining whether a partnership actually exists shall be the same, whether or not third persons are involved.³⁸ But courts may be less inclined to find a partnership to exist if third persons are not involved.

Chances of preventing the formation of a partnership, if such is desired, may be improved by attempting to create some other generally recognized legal relationship. During the middle stage of father-son operations, the relationship of landlord and tenant appears to offer the best opportunity. Many courts have shown a reluctance to find a partnership between parties to a crop-share lease. Also a number of courts have found no partnership to exist in a livestock-share leasing arrangement where the landlord took some part in management;³⁹ but the distinction between it and a partnership is rather thin, especially when both parties participate in management and operation on about an equal basis.⁴⁰

If father and son attempt to create a landlord-tenant relationship rather than

a partnership, they would do well to draw up a written lease, label it as such and include in it as many of the provisions and as much of the language which typifies a lease as will meet their needs and desires. It should provide that the father, as landlord, shall receive his share of farm receipts "as rent."⁴¹ The son might keep the books, as tenants normally do. Limitations on authority to bind each other and a denial of a partnership might well be included.

The precautions discussed above help to guard against the possibility that the agreement would be held by a court to be a partnership. But they do not guarantee that a partnership will be avoided. Few cases in which farmers with similar arrangements were trying to avoid a partnership have come before the higher courts. Whether a partnership may be avoided by taking such precautions is problematical. Therefore, even though a father and son have drawn up what they consider to be a nonpartnership arrangement, they should consider taking some of the same precautions that partners may take.⁴²

³⁵ The Uniform Act provides that sharing in profits is prima facie evidence of a partnership but that this shall not follow if profits were received "as rent to a landlord." 7 U.L.A. sec. 7(4). This is not the same as saying that the receipt of profits "as rent" precludes the possibility of a partnership. It merely precludes the possibility of finding a partnership to exist solely because there is a sharing of profits. In a number of cases, persons admitted to be landlord and tenants have also been held to be partners, 131 A.L.R. 508, 509 (1941). Nevertheless, some courts have indicated that there can be no partnership if either party receives his share of profits "as rent." *Sauntry v. Dunlap*, 12 Wis. 364 (1860). But courts may consider the agreement as a whole and the conduct of the parties in deciding the question, rather than be bound by any express provision that profits are to be received "as rent." *Dalton City Co. v. Dalton Mfg. Co.*, 33 Ga. 243 (1862). Having the son, as tenant, receive the farm income and turn over the father's share to him may also help to avoid a partnership, but such an arrangement often may not appeal to the father.

⁴² Occasionally, however, such additional precautions may make it even more difficult to avoid a partnership, as a court might negatively reason that if there is no partnership such precautions would be unnecessary. But there is no guarantee that a partnership will be avoided anyway, especially if few of the arrangements indicative of a partnership have been given up.

³⁶ *Crane on Partnership* (1938) sec. 14; 40 Am. Jur. 150.

³⁷ 7 U.L.A. sec. 6.

³⁸ 137 A.L.R. 1, et. seq. (1942); 7 U.L.A. sec. 7, note 56; *Crane on Partnership* (1938) sec. 14. But see *Brotherton v. Gilchrist*, 144 Mich. 274, 107 N.W. 890 (1906).

³⁹ 7 U.L.A. sec. 7(1).

⁴⁰ *Blue Valley State Bk. v. Milburn*, 232 N.W. (Nebr.) 777 (1930); *Wagner v. Buttlar*, 139 N.W. (Wis.) 425 (1913); *Schleiker v. Krier*, 261 N.W. (Wis.) 413 (1935).

⁴¹ While a number of courts have shown a tendency not to find a partnership to exist where the agreement is labeled a lease (131 A.L.R. 508, 525 (1941) in such cases the court was not dealing with a situation in which both parties participated in management and operation about on equal basis.

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Even though a partnership is not actually created, one party may be held liable "as a partner" to third persons by conduct reasonably leading such persons to believe he is a partner, such as by placing or consenting to the placing of a firm name which suggests that he is a partner on checks, stationery, in advertisements, or by displaying it on the farm. "A. C. Jones and Son" is an example. Such conduct may also be utilized as an additional reason for holding the parties to actually be partners.⁴³

Landlord-Tenant Relationship

It has been noted that, aside from the possibility of incorporation, taking definite steps to create a landlord-tenant relationship probably offers the best chance of creating a nonpartnership agreement during the middle stage of operations; but whether it is a desirable relationship for such operations depends upon an analysis of its consequences. Volumes have been written on the law of landlord and tenant. Without attempting to cover the subject, some comparisons are made between it and the law of partnerships:

1. A landlord is generally not entitled to possession of the farm, nor to participate in the management and operation of the business unless otherwise agreed. On the other hand, he is not obligated to bear any of the operating expenses, except perhaps as custom may dictate, nor to share in business losses.⁴⁴ The father, as landlord, may agree to bear or share in certain operating expenses without thereby creating a partnership with his tenant son. But if he agrees to share expenses normally borne by a tenant, and especially if he agrees to share all business expenses, chances of preventing the formation of a partnership will be reduced. The extent to which a landlord may participate in the management and operation of the farm without thereby creating a partnership with his

tenant is difficult to say, but if such participation is extensive it may be difficult to avoid a partnership.

2. With a landlord-tenant relationship there is no separate entity, like a partnership, which may acquire title to property used in the business. There may be a joint bank account and joint ownership of property, but this makes it more difficult to avoid a partnership. Otherwise, there is little difference between the two relationships in offering opportunities for the son to reinvest his earnings in the farm business.

3. A landlord or tenant, by reason of their landlord-tenant relationship, generally may not bind each other without consent in incurring debts, entering into contracts, or selling farm products or other property in which both have an interest.⁴⁵ Either may, however, make the other his agent or representative to do certain things on his behalf.⁴⁶ He may also create an "apparent" agency in the other in a particular instance, even though there be no actual agency, if he has repeatedly allowed the other to act for him for a certain purpose so as to lead some third person to reasonably believe that the other is his agent for this purpose. The other may then bind him by all acts within the scope of such actual or apparent agency.⁴⁷

4. In general, neither will be liable for any torts committed by the other by reason of their landlord-tenant relationship.⁴⁸ But if one authorizes the other to do certain things on his behalf, he may be held liable for torts committed by the other while acting within the scope of the agency created.⁴⁹ The types of insurance available to partners are also available to landlord and tenant as protection against most such liability.

5. Although neither landlord nor tenant may readily call upon each other for a formal accounting before a court, each may bring legal proceedings against the other, such as proceedings to partition jointly owned property, without terminating their relationship. A father and a son would be reluctant to sue each other, though, and an agreement to submit future disputes to arbitration may

⁴³ *Ibid.*

⁴⁴ An agent is a person who has been expressly or impliedly authorized by another to act on his behalf for a specified purpose.

⁴⁵ 3 C.J.S. 162.

⁴⁶ Prosser on Torts (1941) sec. 81.

⁴⁷ 3 C.J.S. 186.

⁴⁸ 7 U.L.A. sec. 16; 40 Am. Jur. 178, et. seq.

⁴⁹ 51 C.J.S. 969; Bennett, *Law of Landlord and Tenant* (1939) sec. 1.

be desirable whether they are partners or landlord and tenant.

6. Neither the death of the landlord nor that of the tenant will generally terminate the lease unless it has been so provided.⁵⁰

7. Either party may be given an option to buy personal property used in the business at the expiration of the lease, or other arrangements may be made for the disposition of such property before or upon termination. If no definite arrangement has been made such personal property as is owned jointly may upon termination of the relationship become subject to partition through court proceedings if agreement cannot be reached.

8. Whether the agreement is held to create a landlord-tenant relation, a partnership, or both, in order to make its particular provisions enforceable it may have to be in writing and signed, especially if it is of more than one year's duration.⁵¹ Legal requirements in this regard vary considerably. Such a requirement has been held not to apply to a partnership agreement by some courts.⁵² Putting the agreement in writing is the surest way of making it enforceable. This may be especially important in the event of the untimely death of either party. Then too, a written agreement would probably be entered into with more care than an oral agreement. But both parties should take care to see that the agreement actually expresses what they have agreed to.

Corporations

Although a corporation may engage in farming in most states, the corporate form of business has not often been used for this purpose. It is a more complicated, bothersome, and expensive way of doing business than partnership or landlord-tenant. Articles of incorporation must be drawn up and submitted to the state, which issues a certificate of incorporation or charter. Usually there must be at least three incorporators and directors. Therefore, when only one son is farming with his father, the mother or the son's wife may have to be made a

member and director of the corporation.

Forming and carrying on a corporation involves considerable paper work. In addition to drawing up articles of incorporation and any by-laws desired, and issuing stock certificates, an annual financial report must generally be made to the state. Any amendment of the articles or change of officials must be reported and other miscellaneous reports may be required.

A father and son should not go through the process of incorporating without the assistance of a lawyer. His help will also be needed in preparing the necessary reports and tax returns, amending the articles, and in other miscellaneous matters. These legal services may be rather expensive. Also, a variety of fees may have to be paid to the state upon filing the articles of incorporation and other necessary reports.

The legal consequences of incorporating may differ from partnership or landlord-tenant in certain respects.

1. A father or son as a member (stockholder) of a corporation usually would not be personally liable for corporate obligations, such as debts incurred or torts committed by the other as an official or other agent of the corporation. But his stock may become worthless through the application of corporate assets to discharge liabilities thus incurred.⁵³ And in the case of a father and son engaged in farming, the stock held by each, and especially by the son, may represent nearly his total assets. Moreover, a father or son may sometimes be required to incur personal liability by signing a written corporate obligation, such as a note, in his individual capacity as well as an agent of the corporation, in order for the corporation to obtain credit.

2. Any limitations upon the authority of corporate officials included in the by-laws would not generally be effective as against third persons, except those who have been informed about them.⁵⁴ Where a family

⁵⁰ Bennett, *Law of Landlord and Tenant* (1939) sec. 1.

⁵¹ And a lease for more than a certain duration may be required to be recorded.

⁵² 49 Am. Jur. 404.

⁵³ Grange, *Corporation Law for Officers and Directors* (1945) p. 310.

⁵⁴ 19 C.J.S. 459.

corporation is concerned courts tend to disregard technical requirements and hold it liable on its undertakings made orally or in writing by the persons accustomed to act for it in such matters.⁵⁵

3. Death of a member or other change in the membership of a corporation need not require its dissolution. It may be made perpetual. Therefore, it may have greater continuity of identity and existence than a partnership or landlord-tenant relation. Contrariwise, its dissolution may often require more bothersome and expensive procedures.

4. Property used in the business, including real estate in most states, may become property of the corporation. Stock certificates are evidence of ownership in the corporation. They provide a clear record of proportionate rights in corporate assets and profits and a clear-cut method by which the son may increase his ownership interest. He may buy out his father's stock piecemeal or, if the business is expanding, new shares of stock may be issued and purchased by the son. Stock certificates are of no help, however, in determining what is corporate property and what remains the separate property of father and son.

5. In father and son operations, limitations which may be placed upon a stockholder's ability to transfer stock to a stranger may be important. Provisions that if one stockholder desires to sell his stock it must first be offered to the corporation or to the other stockholders at a certain price are permissible in most states. But any such restriction must appear on the face of the stock certificate to be effective against third persons with no actual knowledge thereof. Provisions that no transfer can be made without the consent of the other stockholders have generally been held invalid and unenforceable.⁵⁶

Tax Considerations

No comparative analysis of legal relationships could be complete without giving some attention to tax aspects. Income, gift, property, estate, and inheritance taxes may all have some significance in father-son operations. From

the standpoint of day-to-day operations, though, the Federal income tax is probably the most significant.

For Federal income tax purposes there are differences between a partnership and a landlord-tenant relationship, but these differences would appear to have no significant bearing upon the advisability of selecting one relationship in preference to the other. A partnership must file a return of income separate from its members, but this return is merely an information return. No tax is paid by the partnership. The distributive shares (even though not actually distributed) of ordinary net income or loss and gains or losses from sales of capital assets and other property are reported in the individual tax returns of the partners.⁵⁷ Interest (on capital invested) or wages paid by the partnership to either of the partners may not be deducted as a business expense on the partnership return.⁵⁸ The partners should bear this in mind if they anticipate providing that wages or interest shall be paid to either or both of them. Although the total tax paid by each partner need not be altered, for income tax purposes payments in the nature of wage payments are to be treated as withdrawals against profits and those in the nature of interest payments as an adjustment in the division of profits.

Total federal income taxes paid by father and son may be altered if they incorporate. A corporation must file a tax return even though it reports no taxable income, and must itself pay a tax on any taxable income reported.⁵⁹ The corporation may deduct wages, rent, or interest paid to father and son.⁶⁰ These payments may so reduce corporate net income that little or no tax need be

⁵⁵ Grange, *Corporation Law for Officers and Directors* (1945) p. 382.

⁵⁶ Fletcher, *Cyclopedia of the Law of Private Corporations*, sec. 5455, et. seq. (1932); 6 U.L.A. sec. 15.

⁵⁷ 26 U.S.C.A., secs. 181 and 182 (1945).

⁵⁸ *Code of Federal Regulations* (1949 ed.) Title 26, sec. 29; 183-1(b).

⁵⁹ 26 U.S.C.A., sec. 52.

⁶⁰ *Ibid.*, sec. 23(a)1.

paid by the corporation. But it is not easy to determine to what extent corporate taxable income may be reduced through the payment of wages, rent, or interest. Salaries reported must be "reasonable" in amount,⁶¹ and wide fluctuations in salaries from year to year may be questioned, especially if no regularly monthly payments have been made and a lump sum payment is made near the end of the year.⁶²

If the corporation pays no tax itself, little difference income taxwise would result from doing business as a corporation. If the corporation must pay a tax, however, the combined income tax of father and son (and the corporation) will in most cases, though not invariably, be higher than if they had not incorporated.⁶³ If either has substantial outside income he may gain through incorporation, but it may often be at the expense of the other, who may have no outside income. In some instances, especially where something over \$20,000 net income would have been realized as partners or landlord and tenant, a combined tax saving may result.

So far, it has been assumed that no dividends were distributed. If dividends are distributed (other than those which represent a distribution of capital assets) incorporation will be made less desirable than otherwise, as double taxation results. That is, the corporation pays a tax on the profits which such dividends represent

and in addition the stockholders pay a tax on the dividends received.⁶⁴ A penalty tax may have to be paid for "unreasonable" accumulations of dividends for the purpose of preventing the imposition of surtax upon the stockholders. But no such tax will be imposed as to profits that (it can be shown) are left in the corporation for the purpose of expanding the business.⁶⁵

Legal Relationships

A variety of legal relationships may be employed by a father and son at different times during their farming operations. However, during the middle stage in their operations, as herein defined, in most states there is only one legal relationship, aside from a corporation, which is clearly available to them; i.e., a partnership. A landlord-tenant relationship may possibly be created without also creating a partnership. But to have much chance of avoiding a partnership some possibly desirable arrangements may have to be given up. No other commonly recognized legal relationship appears to be applicable. While a corporation may generally be created to engage in farming, the extra bother and expense of incorporating and operating as a corporation must be taken into account, along with tax and other legal consequences.

Whether a partnership is the most desirable type of legal relationship for a father and son during the middle stage of their farming operations is best determined in light of their particular circumstances. Because of mutual trust, many fathers and sons may be little concerned about partners' liabilities to third persons for each other's acts in carrying on the business. Or they may feel that the advantages of a partnership

⁶¹ U.S.C. Title 26, sec. 23(a)1.

⁶² And salaries paid by family corporations are subject to closer scrutiny than otherwise. *Code of Federal Regulations* (1949 ed.) Title 26, sec. 29.23(a)-6.

⁶³ The following and other factors come into play in determining whether incorporation results in a higher or lower tax: (1) corporate rates differ from individual rates, being higher in the lowest tax brackets, but lower in the upper brackets; (2) a corporation does not have the benefit of the personal exemptions and the standard deduction available to individuals; (3) but its ability to deduct wages, salaries, and interest paid to father and son allows a splitting of income between them and the corporation; (4) the number of exemptions available to father and son also comes into play.

⁶⁴ 26 U.S.C.A., sec. 22(a) (1945); *Ibid.*, sec. 115(a) (1948).

⁶⁵ 26 U.S.C.A., sec. 102 (1948); *Code of Federal Regulations* (1949 ed.) Title 26, sec. 29.102-3.

outweigh its possible disadvantages. And what the father considers a disadvantage may sometimes be considered an advantage by the son, or vice versa.

In any event, any decision not to create a partnership should be made only after considering the probable difficulty of avoiding it and the consequences of creating other legal relationships which may possibly be formed. Attention should be given to the arrangements made possible by the different legal relationships, liabilities and risks involved, tax and other legal consequences, and insurance and other precautions that may be taken. The writer does not necessarily advocate either the creation or attempted avoidance of a partnership. But whatever the decision, consideration should be given to precautions which may be taken to protect against any undesirable consequences of the relationship selected.

Protection of the Son's Investment in Improvements

Another problem which may often arise is with regard to improvements made on the father's farm—such as new buildings, building additions, and new fences. The son may often help in making such improvements (with his capital, management, and labor) and should receive compensation for his contributions. To fully protect the son some definite arrangement for compensating him should be made. The possibility of the father's untimely death makes this even more desirable. A mere oral agreement to compensate the son may often be unenforceable, especially as against the father's estate.

Among other ways, the father may

protect the son's contributions by giving him a note in payment, preferably supported by a mortgage to the farm as additional security. Or the father may transfer ownership of, or an undivided interest in specified items of livestock, machinery, or other personal property to the son, preferably by signing a bill of sale to that effect. With a partnership, the son's stated capital investment could be increased by the amount of the value of such contributions. With a corporation, shares of stock could be transferred to him in payment.

The son may often be reluctant to contribute toward making improvements unless he is given some tangible assurance that he will some day own the farm. With this in mind, the father may contract to deed or will part, all, or an undivided interest in the farm to the son, taking account of the son's contributions in arriving at the purchase price. Other arrangements for transferring ownership interests in the farm are possible.⁶⁶ Unless or until arrangements are made for the eventual transfer of full ownership rights in the entire farm to the son, though, it may frequently be more desirable to pursue one of the other methods discussed above.

There is need for serious consideration of the legal problems involved in formulating father-son farming agreements. The foregoing discussion has indicated some of the problems that can arise. The laws of a particular state should be considered in drafting any agreement for use in that state, and competent legal advice should be obtained.

⁶⁶ For a list of possible methods of transferring ownership, see "Father and Son Farm Agreements," note 1, *supra*. A discussion of the merits of each method possible is beyond the scope of this discussion.

Reports and Comments

Wildlife Economics—A Neglected Tool of Management*

Background

TO date very little attention has been given to the wildlife crop produced from the land, nor has sufficient effort been given to evaluating its place in the land economy. Because adequate wildlife production depends heavily upon conscious land management practices—especially upon private lands where economic considerations are paramount—the need exists for a more intensive development of a branch of knowledge devoted to the economics of wildlife management.

The science of land economics has been developed to the point where it embraces the specialties of agricultural economics, forest economics, and sub-surface (or mineral) land economics. Each of these segments includes an important phase of land use where the land is devoted primarily to the production of the particular commodity concerned. As a result of this special attention given to the economic phases of land use a much more adequate understanding has been gained of the factors influencing both sound and improper management. The economics of conservation rests upon a fairly firm foundation of basic information available from comparatively recent research work.

Scope of the Field

The steady deterioration of wildlife habitat on private lands has resulted from economic and institutional pressures which have intensified land practices. Under an economy where cash income has a high priority in owner decisions, market crops and livestock take first place. Wildlife which is a product of favorable habitat and also the property of the state, not the individual landowner, is too often sacrificed in the process. The time has come when our society must make a choice—either to permit the continued depletion of

wildlife environment in favor of commodity agriculture, or to determine ways and means whereby landowners will be provided with incentives, economic and otherwise, for producing wildlife crops.

A Suggested Approach

Future investigators into the economics of wildlife management are fortunate in that a wealth of background material is already available from allied fields of conservation. Intensive studies have been carried on into the impacts of land tenure, taxation, and class of ownership on land management practices in forestry and agriculture. Additional material on financial returns, land valuation, and other pertinent aspects likewise is available.

Until now wildlife crops have been considered to have an intangible economic value, but the mere fact that society is willing to pay for the restoration of duck marshes, the establishment of cover plants, the improvement of streams and lakes for fishing, and such, is indicative of the presence of tangible, though not marketable, values. A basis of comparison already exists, but it needs a great deal of refinement to be valid in the economic field.

Furthermore, our thinking must pioneer beyond the bounds of traditional economic concepts when we evaluate wildlife. Some wholly new aspects will, in all probability, need to be opened up. This will be especially true in the development of solutions to such outstanding problems as marsh drainage, fence row eradication, chemical spraying of brush and weeds, and other cases of actual habitat destruction. In another category the problem of developing methods and inducements for private owners to devote both labor and land to the preservation and creation of wildlife cover offers another challenge to wildlife economists. The mere fact that relatively small but strategic areas devoted to wildlife habitat are all that may be needed (and these are often low in value or sub-

* Abstract of talk given on a panel discussion at North American Wildlife Conference, March 5, 1951, Milwaukee, Wisconsin.

marginal for agriculture) is indicative that the economics of this problem is neither intangible nor beyond the pale of economic justification. Taken as one part of the whole group of public and private benefits derived from a complete land conservation program, wildlife crops may be highly important in the over-all determination.

Basic to this new concept of wildlife economics is a re-orientation of our thinking about the term "subsidy." Subsidy is sometimes defined as a payment for goods or services over and above their economic worth or free market value. Incentive payments to landowners for the production of wildlife crops, reduced erosion and reservoir siltation and other benefits by applied soil conservation which the public receives, cannot be considered as subsidies, *providing* they are geared to measurable values of performance. Financial assistance is often necessary where substantial capital investments are needed to establish remedial measures.

Conclusion

If the wildlife management profession is to take its rightful and continued place in the field of land utilization, immediate attention must be given to the economic forces which so strongly influence land use practices. Basic research into the economic values of wildlife will make possible the development of policies and programs designed to conserve the land base upon which our whole economy rests. Integration of economic benefits of wildlife management with those of other conservation practices will fill an important gap in our program. It will aid greatly in taking the next great step facing wildlife technicians: application of the management techniques already known on a scale commensurate with the size of the problem. And the preservation of a basic freedom—the freedom of the outdoors—may well hinge upon an early solution.

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The President's Commission on Migratory Labor in American Agriculture

FOR many years this country has been developing a guilty conscience about the shabby way it has been treating its migrant agricultural workers. Under the constant prodding of such writings as Agnes E. Meyer's frequent articles in *The Washington Post*, and Carey McWilliams' widely read *Factories in the Field* and *Ill Fares the Land* (together with the several excellent though less widely read publications of the United States Department of Labor and the United States Department of Agriculture), public interest in the plight of these unfortunate people has been quickened. Public interest has been even further aroused by the recognition, late in coming, that too extreme exploitation of migrants leaves a scar not only upon the migrants but frequently upon the local communities as well. Long standing local apathy and indifference to the hardships suffered by migratory workers and their families appear in many places to be giving way to rather intense concern, prompted largely, perhaps, by fearfulness of the effects of the presence of these workers upon the local communities in which they temporarily reside.

Unlike comparably poor permanent residents of chronically low-income areas, the deplorable conditions under which migratory agricultural laborers often live and work are brought into clear relief by the fact that they spend much of their time living in relatively prosperous agricultural communities. The contrast thus revealed between the living standards of the migrants and the regular residents of the communities is a little too much for even the strong American stomach. As a consequence, we have had a number of official and semi-official documents dealing with this problem. The U. S. Interdepartmental Committee to coordinate Health and Welfare Activities, in its *Report to the President*, July 1940, included a considerable section on what it called, *Migrant Labor . . . A Human Problem*. Six years later a Federal Inter-Agency Committee on Migrant Labor, U. S. D. L., was asked to investigate the problem further. In recent years, also, several state governments, notably California, Minnesota, and Wisconsin have issued commission-sponsored reports on the subject.

The most recent, and in a sense the capstone, effort of this type is that made by the recent President's Commission on Migratory Labor. This Commission's Report, *Migratory Labor in American Agriculture*, (March 1951) is the object of comment here.

This Report is an important document. It pulls together the salient findings of previous studies and reports as background for its own contributions, which derive principally out of a series of twelve formal public hearings, held both in areas furnishing and areas employing large numbers of migrant workers. Testimonies were obtained from representatives of groups with widely divergent interests in the migratory labor problem—representatives of "farmers, growers, processors, employees, labor organizations, officers of Federal, State and local governments, social workers, health authorities, educational leaders, religious groups, and numbers of the migrant workers themselves."

The Commission was concerned purely with migratory agricultural workers, defined as "a worker whose principal income is earned from temporary farm employment and who in the course of his year's work moves one or more times, often through several States." (p. 1) The Report distinguishes three different types of migratory workers: (1) foreign nationals employed in the United States under inter-governmental agreement, (2) illegal alien labor (the so-called "wetbacks" who smuggle themselves into the United States in search of employment) and (3), American citizens, principally of Mexican descent, who follow seasonal farm jobs from area to area and usually across several states. The Report rightly concerns itself primarily with the last two groups since the first is or can rather easily be brought under close public surveillance and control by virtue of the manner in which these nationals are imported into the country.

Both of these last two groups have similar problems although, in almost every instance, the case of the "wetback" is the more aggravated. Extremely substandard housing, sanitation and health facilities; a complete lack of social integration into the various communities through which he moves; a failure of educational facilities to meet the needs of his children; low and unstable earnings due in part to between-job unemployment and, perhaps more, to an unequal bargaining position *vis-a-vis* his employer, bordering frequently upon peonage—these

are the standard ingredients of the lives of these people.

All this is by no means new to students of the problem, nor did the Commission strive for originality. It did the much more important task of bringing these conditions into open view where they can, on the one hand, arouse public interest and local action and, on the other, influence policy-making at the highest level.

From the viewpoint of its contribution to local action, the Commission's Report leaves little to be desired. It covers the principal problems encountered by migrant workers and their families, dealing with most of them in sufficient detail to provide interested local groups with a clear idea of the problems needing their attention. Furthermore, unlike many such documents, the Report undoubtedly was written with the popular audience in mind. It is written cogently, powerfully, and in places even dramatically, in a style designed to capture the interest and to stimulate the discussion necessary to activate the processes of local action.

Because of the importance, in this reviewer's mind, of this function of the Report (and also because they indicate the general tone) the following excerpts are given as evidence of its style of expression:

"Migrants are children of misfortune. They are the rejects of those sectors of agricultural and of other industries undergoing change. We depend on misfortune to build up our force of migratory workers and when the supply is low because there is not enough misfortune at home, we rely upon misfortune abroad to replenish the supply . . ."

"Migratory farm laborers move restlessly over the face of the land, but they neither belong to the land nor does the land belong to them. They pass through community after community, but they neither claim the community as home, nor does the community claim them . . . [they] engage in a common occupation, but their cohesion is scarcely greater than that of pebbles on the seashore. Each harvest collects and regroups them. . . . As crops ripen, farmers anxiously await their coming; as the harvest closes, the community, with equal anxiety, awaits their going." (p. 3)

The Commission did not limit its function to stimulating local discussion; in fact, the Executive Order establishing the Commission requested that it make written "recommendations for governmental action, either legislative or administrative." Accordingly, each chapter of the Report dealing with a distinct aspect of the problem closes with a

list of recommendations. In addition, the Report closes with a chapter entitled, "A Coordinated Policy and Program for Migratory Farm Labor." Space does not permit a listing of the many excellent policy suggestions made. The concluding comments deal, instead, with some of the basic shortcomings of the policy aspects of the Report, as seen by this reviewer.

(1) The alternatives to the present widespread use of migratory agricultural labor for highly seasonal jobs are not adequately explored. It is simply a matter of fact that many agricultural enterprises require a very great increase in labor force for short periods of time. Mechanization has not yet removed all these bottlenecks. The alternative to using migrant workers would be either the discontinuance of these enterprises or, as was frequently the case prior to World War II, the existence of a large reservoir of under-employed labor which could be called into full use only during peak labor requiring seasons. Also, one cannot be sure, on the basis of evidence presented, that the migrant worker's lot, or even that of the "wetbacks" would be improved were we to employ fewer of them in American agriculture.

(2) With respect to the employment of foreign nationals, the Commission gives no attention to the effects of this importation of labor upon the foreign, and very little to the American, economies involved. Experience during the last war indicates that this might be considerable. It would seem more proper to censure economists generally than the Commission for this failure. Rarely have economists seen fit to broaden the economics of international trade theory to include trade in the services of the human agent. If the doctrine of free trade were carried to this logical conclusion, its acceptance might meet with considerably greater hesitancy.

(3) The policy recommendations of the Commission root basically in an approach which this reviewer believes to be inadequate. Its point of view is summarized in the statement: "We do not believe that the answer to the neglected needs of migratory farm workers is to create a new bureau or agency to serve their particular requirements. The Commission is of the opinion that in the long run the needs of migrants can best be met by broadening and extending to them the basic services which are designed to serve the population in general. We are, therefore, recommending that program responsibilities shall be kept in the regular agencies." (p. 176) It does, however, recommend that "a coordinating body be established at the Federal level of government and also in those States in which migratory labor is a problem of major proportions." (p. 176-7) The function and authority of this coordinating body, as proposed by the Commission, is too nebulous to

alter appreciably the fundamental reliance upon a mere improvement of existing agencies.

Laudable as is the philosophical justification for this reliance upon regularly constituted agencies—that "sound public administration in a democracy requires that agencies designed to serve the particular needs of special occupational or income groups in the population be kept at a minimum"—this approach seems to ignore the fundamental character of the migratory labor problem.

This reviewer's reasons for feeling the need for an alternative approach, involving the creation of a specific agency of the type believed unnecessary by the Commission, are quite well suggested in the Report itself. "Agencies to serve all segments of the population are essential to sound and democratic government. But with such a group as the farm migrants, though their needs are particular and urgent, they are not in good position to make them known and thereby to share in the general service programs of government agencies at all levels." (p. 176).

The reviewer's reasons for this lack of optimism about relying upon existing agencies are detailed in the publication *Migratory Agricultural Workers in Wisconsin*,¹ in the preparation of which he had a considerable part. In brief summary they are: "Effectively to correct a situation of general abuse of the rights of migratory laborers would frequently require the participation of several state and local and (possibly, Federal) agencies, for each of which the migrant worker's problem is in some sense a special case In the present absence of any unifying public agency, most of these highly special problems in basic human rights surrounding the lives of these migrant workers . . . pass unnoticed through the web of a highly parcelized and specialized administration of our public programs."²

(4) Considering the principal purposes this report may be expected to serve, it is unfortunate that the Commission did not choose to include a selected bibliography of works on this subject.

The country owes a debt to the excellent service of the President's Commission on Migratory Labor. The above mentioned shortcomings—and others of less moment which could be mentioned—suggest principally that the policy aspects of this problem need more attention from economists and other social scientists than they have been getting.

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¹ *A Report of the Governor's Commission on Human Rights*, Madison, Wisconsin, 1950.

² *Ibid.* p. 37. Italics in Text.

"A Statement of Desirable Policy With Respect to the Conservation, Development, and Use of the National Water Resources":*

A Digest and Commentary

WHAT are the major elements of a desirable national water policy? This question, along with a critical analysis of existing policies and programs, is the subject to which the Water Policy Panel of the Joint Council of Engineers have addressed themselves in a report published in June of 1950. This report should be of interest to economists with major assignments in the field of resource development and conservation.

The report indicates the interest of the engineering profession in water resources policy, as follows:

"The development and operation of water projects, in their physical aspects, and to a considerable extent with regard to economic factors, is an engineering matter and the carrying out of such services represents a material part of the professional engineering work of the country . . . It is natural, therefore, that the organized engineering profession should be sensitive to any matters of confusion, waste, or conflicting policy in this field, and that others should turn to the profession for assistance in the analysis of our water problems as a whole, and for recommendations for the creation of a comprehensive national water policy to govern future operations."

The primary and immediate objective of the report was to furnish recommendations to the President's Water Resources Policy Commission. In the light of the short period of time devoted to the study (about six months)¹ and the large number of engineers

participating (about 75), the resulting document is quite impressive. Some shortcomings of the report can, no doubt, be credited to the lack of time for refinement and documentation. The foreword of the report freely admits that the initial effort was somewhat limited in scope but would be expanded later at which time additional aspects of the problem would be treated and further documentation provided.

Because of the attitudes expressed and the apparent lack of major conflict between individual contributors, the question naturally arises as to who the participants were and who they represented. The group, with one major exception, seems to represent a fairly good cross section of the American engineering profession. The exception is that the list does not include a single federal employee. About one third of the group claim past experience in the federal service, however. Several had spent a major portion of their professional life in federal government service. Many others had served as consultants to federal agencies in the planning and design of major water development projects. More than one-half of the members came from consulting firms. Other members were drawn from state and municipal governments, colleges, private corporations, and drainage, irrigation, and other water use districts. General agreement by the various technical experts on fundamental principles is claimed.

The basic work of the Joint Council in preparing the report was accomplished by nine task committees, presumably working independently of each other. The one exception apparently was that the report of task committee number nine, dealing with policies of general applicability, was made available to each of the other eight committees. A coordinating committee summarized the recommendations of the nine task committees. The report, as published, consists primarily of (a) the summary report of the coordinating committee and (b) appendix reports of the nine task committees.

* Prepared under the auspices of the Water Policy Panel of Engineers Joint Council, June 1950. Engineers Joint Council is an organization of the five national engineering societies: American Society of Civil Engineers, American Society of Mining and Metallurgical Engineers, American Society of Mechanical Engineers, American Institute of Electrical Engineers, and American Institute of Chemical Engineers. Engineers Joint Council is a clearing house for the five societies with respect to matters of common interest. It has many fields of action, among them that of coordinating the services which members of the engineering profession may render the public. The Council had set up an exploratory committee in 1947 to plan an investigation and report on national water policy. With the appointment of the President's Commission, a report was hurriedly completed for its consideration.

¹ A committee of the Society of Civil Engineers, however, had given consideration to various aspects of the problem over a number of years.

The reports of the task committees include the following subjects:

- (1) Domestic and industrial water supply and pollution.
- (2) Flood control, including water flow retardation.
- (3) Navigation and Inland Water Transportation.
- (4) Irrigation.
- (5) Hydroelectric power.
- (6) Recreation, fish and wildlife.
- (7) Basic water resources information.
- (8) Land drainage.
- (9) Policies of general applicability.

Perhaps of more importance than the specific recommendation made is the critical attitude of the report toward existing programs and the institutions for implementing them. This philosophy is expressed by the statement that "the present rate of planning and Congressionally authorizing water resources development is excessive and economically unsound." To correct the situation described in their criticism, the report makes a number of very strong recommendations. Probably because the coordinating committee chose to accept the task committee summaries as its own summary, minor conflicts in recommendations were not resolved.

Major Issues

The report makes a number of recommendations to improve what are considered to be faulty concepts and procedures in development of water resources. The discussion is concerned primarily with two major issues in water policy, (1) economic justification of projects, and (2) federal participation in water development programs.

Economic Justification of Water Resources Project. One of the most important stands taken by the committee is that the planning of water development projects should adhere closely to economic principles. Unless the development under consideration is economically justified, it should not be undertaken. The engineers recommend also that uniform concepts and standards of evaluation be adopted by all the federal agencies operating in the field of water development. Further, they argue that developmental plans should be re-examined from time to time in relation to anticipated benefits and costs. To be considered economically justified, the report suggests that a margin of benefits over costs be required. The neces-

sary benefit-cost ratios would range from 4:3 to 2:1, depending upon the uncertainty associated with the development and the length of time necessary to realize the calculated benefits. The position is supported by the not too convincing argument that participants in the program should have some reward for their participation just as any entrepreneur is rewarded for his efforts. Apparently, the concept that the interest charge is an approximation of alternative returns for the resources used is not accepted. Neither does the report recognize that for projects developed in such a way that incremental benefits equal or exceed incremental costs, the total benefits will exceed total costs. The ratio of total benefits to total costs would thus be greater than 1:1 but would not necessarily conform to the standard (ratios ranging from 4:3 to 2:1) suggested by the engineers.

One additional point in regard to the use of economic criteria relates to the proposed method of allocating joint costs. According to the method proposed, joint costs would be allocated in proportion to actual use anticipated by each function. Elsewhere throughout the report the suggestion is made that the decision of whether to include an additional function should be based on a determination of whether the incremental costs are justified in terms of additional benefits. Close study reveals a conflict in the two proposals. If the method of cost allocation is applied as suggested, the possibility exists that a certain feature of a project would be precluded even though justified in terms of incremental costs and benefits.²

Recommendations in regard to estimating costs take the form of an appeal to be thoroughly inclusive and completely realistic, implying of course that existing practices are deficient in this regard. Special emphasis is placed on two elements of cost; namely, interest on investment and payments in lieu of taxes. The attitude of the water policy panel toward interest charges is indicated by the statement that: "Taking into account all of the costs and implications involved in Federal financing of water developments, it is fair to say that such financing is far from being as cheap as commonly assumed or as indicated by charges, for the use of money,

² Karl Gertel, "Recent Suggestions for Cost Allocation of Multiple Purpose Projects In the Light of Public Interest," *Journal of Farm Economics*, February 1951, p. 130.

running at present merely from 2% to 3% per annum." The question of a more appropriate interest rate is not answered. The second point concerns payments or allowances in lieu of taxes. The engineers suggest that such allowances include not only local taxes but state and federal as well. The theoretical problems involved as well as the practical difficulty of approximating what the Federal tax should be are not discussed.

Many of the problems involved in evaluating project benefits are not recognized. The report merely asserts that uniform procedures should be used, that benefits should be calculated on a net basis, and that benefits credited to a project or function should be no greater than the necessary alternative expenditure for accomplishing the objective of the function. Such topics as social versus private values, indirect benefits, evaluation of deferred benefits, and price level assumption might well have received more attention.

Federal Participation in Water Development Projects. If adopted, the policy recommendations of the Engineers Joint Council in regard to federal participation would have far-reaching impacts. Their position can perhaps best be expressed by a quotation from the summary of the coordinating committee. It is as follows:

"Conservation and control of the waters of the United States are in the national interest, but not necessarily a function of the Federal Government. On the contrary, that which can be done by the individual should be done by him, and that which requires collective action should be done at the lowest governmental level practicable. The Federal Government should engage in the conservation and control of waters only when the collective action of all the people of the nation is necessary for accomplishment of the objectives. Such collective action through the medium of the Federal Government is justified for only two purposes: First, to do those things which are essential to the national defense or otherwise of substantial benefit to all of the people throughout the nation; and second, to aid in financing the cost of construction of works for the benefit of a limited number of people on terms equitable to all other citizens of the nation."

The above statement is obviously intended to restrict federal participation to a smaller scope than currently practiced. Other statements of the engineers seem to emphasize this position. From the summary of committee number 9 (policies of general applicability) come the following two statements: (1) "Water resources development should, where-

ever feasible, be by local enterprise—governmental or private." This point is further elaborated upon in the text as follows:

"Preferably, the Federal Government should not advance the full cost of any water development or component but only an amount not exceeding one-half thereof, such advance to be contingent upon the financing prior to construction, of the remaining cost of the project or component by non-Federal capital. For such a policy, there is precedent, for instance, in the present 50%-50% basis of Federal aid for State highway construction." And (2) "To the maximum feasible extent, the beneficiaries of Federal Water Resources developments should be required to reimburse the government, and hence the nation's taxpayers, for the benefits accruing directly to them."

A strict application of the governing principle would undoubtedly eliminate or reduce federal participation in many local projects currently being developed. In many ways it would return federal water policy to the status that existed before enactment of most of our existing federal laws on reclamation, national forests, water power, flood control, and soil conservation, all of which provide for substantial Federal participation in the development of local projects.

Recommendations Relating to Specific Functions of Water Development Projects

Seven of the nine task committee reports are concerned with appropriate policies to govern the activity of the federal government in each of the major functions of water development projects.³ The most pertinent points relating to the major functions are summarized below.

Flood Control. The governing principle of the flood control task committee, apparently, is that "flood control is of vital concern both to Federal and local interests." Accordingly, the argument is advanced that flood control projects should be developed cooperatively between them. The federal government would contribute financially to the projects only in relation to national benefits, but

³ The use of the Missouri River Basin as an example which "points up most of the issues confronting proper water resources planning, utilization and management" has drawn considerable fire from proponents of the Missouri Basin program. One group of engineers has demanded that the Engineers Joint Council correct or retract the section of its report pertaining to the Missouri Basin. See Nebraska Section, American Society of Civil Engineers, "Committee Report on the Engineers Joint Council Report on National Water Policy," January 1951. This committee report has been adopted by the Nebraska Section.

would take the lead in the collection of basic data. The federal government would also be authorized to loan money to local interests in developing a project. (The general recommendations of the report emphasize the use of non-federal capital in developing projects.)

Water Flow Retardation. Although the federal interest in holding soil in place on watersheds is recognized, the task committee would generally confine federal participation in conservation programs to that of providing technical assistance. The reason for the position is "the benefits of withholding the soil, to the owner, are so obvious as to require no proof, hence there can be no justification for 'incentive payments' to land owners for such soil conservation measures." The task committee report later recognizes that the benefits of some conservation measures are not so obvious but suggests that programs be limited to measures which return benefits in excess of costs.

Irrigation. In contrast to the flood control and flow retardation task committee statements, the federal interest in irrigation is not explicitly recognized by the report. That national policy of federal development of irrigation is well established, however, is reluctantly accepted. The primary recommendations are that (1) irrigation policy with respect to repayment should not be further liberalized, (2) standards for justification should be based on the relationship of costs incurred and tangible values actually created, (3) the water user's ability to repay should be determined and it should be shown clearly how balance of cost will be amortized, and (4) the public utility form of contract can be made workable and acceptable if the obligations of public utility service are recognized and such contracts are not used to implement social change.

Land Drainage. The attitude of the report on drainage seems to stem from two basic principles, first that increased production from land now in cultivation seems to be keeping pace with increased food needs and, second, that most of the nation's poorly drained land is not deteriorating and might well be kept as a reserve for increased future food needs if they develop. Accordingly, the extension of federal participation in the field is not recommended. For projects clearly feasible, however, federal participation should not be precluded. Cost of drainage should not exceed value of comparable land.

Hydroelectric Power. The statement by the task committee on hydroelectric power is characterized by its emphasis on private power development. However, national defense needs are regarded as adequate justification for federal development if such need is "well authenticated." Specific recommendations include (1) alternative generating costs should be considered as the upper limit of the value of power benefits; (2) no power should be sold at less than cost; (3) in determining economic justification or rates, allowances in lieu of taxes should be included that would approximate actual taxes paid if the development were privately owned and operated; (4) power should generally be sold at the generating stations; (5) the cost of hydroelectric power should not be regarded as a "yardstick" for measuring the propriety of costs or rates of privately produced power; and (6) provision should be made in law whereby states or their subdivisions may acquire hydroelectric power developments constructed by the United States.

Navigation. The statement of the navigation task committee consists primarily of an indictment of past and current river navigation projects. Three recommendations are advanced as a solution to the problem. They are as follows: (1) annual reports for all existing projects should be published showing annual costs and traffic in comparison with the conditions anticipated by the original justification analysis, (2) no additional toll-free canals should be constructed, and (3) inland waterway transportation should not be used as a device to force reductions in freight rates.

Domestic and Industrial Water Supply and Pollution. Since domestic and industrial use of water is regarded as the highest and best use, the task committee logically pleads for adequate pollution control which should be accomplished by the lowest level of government possible. Nearly all of the public water supply systems are intra-state. Only a few have inter-state problems. Urban water supply systems should be built and paid for by those using the service. The cost is within the economic reach of all. For multiple projects involving public water supply, the local community, according to the task committee, should pay its fair proportion of the cost.

Recreation, Fish and Wildlife. The Engineers Joint Council report seems to express a

more liberal attitude toward federal participation in recreation, fish, and wildlife projects than for other functions of multiple purpose water developments. In general, recreation is regarded as having intangible values similar to education. Past evaluations of recreation benefits are considered wholly arbitrary. Future economic evaluation of such benefits is not recommended, but careful consideration of such intangible values is urged. Local participation is looked upon as being essential.

General Appraisal

As revealed by the foregoing summary, the engineers' report is primarily concerned with specific features of national water policy. It is much less concerned with the processes and forces which have been responsible for existing policy. In relation to the process whereby policy is determined, the report states that "placing the responsibility for the chaotic situation in which the country now finds itself is neither simple nor fruitful." That such a task is not simple will find no argument. As to being fruitful, an inquiry into how water policy has evolved might well contribute as much to finding solutions to the nation's water problems as a statement of what policy should be.

In one respect in particular, the report unfortunately is silent. It relates to the difficult

organizational and financing problems that would accompany a shift from federal to regional and community enterprise in developing water resources. Until solutions to these problems have been fashioned, the recommendations of the engineers would place a severe restriction on future development. For economically desirable projects, however, the problems of local development need not be insurmountable. For such undertakings, especially with a modest federal contribution, strong incentives would exist to motivate local and state groups to adapt their institutions to the solution of regional and community problems. All projects would probably face a more critical appraisal if developed by local funds. For projects of doubtful merit, construction would likely be either deferred or dropped from further consideration. The choice then between dams, soil conservation measures, roads, schools, and other local improvements would tend to be made by the folks who pay the costs and reap the benefits—a condition declared just and equitable by the Water Policy Panel of the Engineers Joint Council.

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Rejoinder to Professor Brandt's Critical Appraisal of O. Schiller's "Farming Co-operative"*

IN Professor Brandt's critical I am said to consider the land cultivation system described as "a valuable precedent in the mechanization of under-equipped small family farm systems" and "a proper analogy to the situation in the villages of, say, India, Indonesia, or Italy," which allegations form practically the basis for Professor Brandt's comment. However, nothing of this kind has been said in my article. On the contrary Professor Brandt himself quotes in his appraisal the following statements of mine: "It cannot yet be said that other countries with a similar agricultural structure could make

practical use of the lessons taught by the experiment;" and "I do not suggest the application of this particular system to other countries." Professor Brandt's erroneous conception can, therefore, be attributed only to a misinterpretation of my article or its title—which perhaps I should have formulated differently, in order to make it perfectly clear that I did not intend to go beyond a truthful presentation of experiences made in applying co-operative methods to agricultural production.

In my article I had to restrict myself to describing briefly the practical operation of the "farming co-operative." This fact might be blamed for creating the impression that it—as Professor Brandt feels—represents a rigid system which is forcibly introduced and executed according to strict rules. Not one

* See, Otto Schiller, "The Farming Co-operative: A New System of Farm Management," *Land Economics*, February 1951, pp. 1-15; and Karl Brandt, "A Critical Appraisal of O. Schiller's Farming Co-operative," *Land Economics*, May 1951.

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of the experiments described in my article had the character of a rigidly cast form, nor was it ever my intention to recommend it for possible application in other countries. A number of Professor Brandt's arguments cease to carry weight when these facts are borne in mind—which facts were unmistakably established in my earlier, more detailed presentation of this subject.¹ There it was pointed out, for instance, that the equality of land-shares, inevitably resulting from the then prevailing conditions, was not meant to be an everlasting, schematic equalization of property and should by no means obstruct further development of differences in land sizes.² The leasing of reserved land to certain co-op members from the very outset also provided a possibility to account for differences in the working capacities of the individual farms.

The uniformity of crop rotation also was not intended to force the members of the co-operatives to plant exactly the same crops. The root crop fields, for instance, showed, even in the first working year of the farming co-operatives, a variety which clearly evidenced that the individual coop-members retained a high degree of free initiative for operational planning.

I have never considered this system—as assumed by Professor Brandt—"a real solution of the farm problem in Russia." Furthermore, it was not intended "to replace the kolkhoz system by a hypothetical agrarian theory" but "to create a means of transition from the Bolshevik operation methods to a system of individual enterprise without, in so doing, being bound to inflexible principles or a rigid scheme." The possibility should remain "to adapt oneself to the practical requirements of life in accordance with the experiences made."³ This includes above all the possible transition to purely individual enterprise.

Due to the limited space, I could touch but briefly the possible conclusions to be derived by other countries in the application of this cooperative system—instead of expounding them in detail. The situation in Germany, however, has been thoroughly analyzed in a pamphlet of mine which was published in

1949⁴ and which concludes that in Germany little possibility exists for the introduction of a common crop rotation due to widely differing conditions in individual farm enterprises. In this pamphlet I have further emphasized that the common crop rotation must in any case be a voluntary action which must not constitute a rigid system but be flexible enough to account for the individual requirements and desires of the participating members. I have also pointed out "that it can never be the objective of a common crop rotation to create a uniform cultivation throughout the rotation system." Root crop fields as well as fields of special crops are not in any way bound to this uniformity, but may show a high degree of diversity.

In order to introduce a common crop rotation, the field layout has to correspond. In the occupied Soviet territories the described form of land distribution was an automatic consequence of given conditions. Suppose, somewhere in this world a group of farm families were given the order to divide (at their own discretion) among themselves a properly functioning large estate for individual usufruct without temporarily stalemating the operation. To achieve this end, they would probably do the same thing, i.e., they would not divide the available land into consolidated tracts (one each for every member of the group) but they would subdivide every single field of the estate among themselves so that each farmer could benefit equally from the winter wheat already planted, for instance, or the alfalfa crops to be utilized for two more years. If then, for the time being, no new operational funds were available to add to the old capital of the former estate, the farmers would no doubt automatically apply cooperative methods similar to those described in my article.

In Germany as well as in other countries such a field layout can be achieved only in conjunction with the state-sponsored "rectification of field arrangements" as is presently carried out in Western Germany. This rectification of highly scattered, German family-farm systems generally does not result in consolidating individual property to one solid tract, but leaves, in accordance with the desires of the farmers, at least 3 to 5 separate parcels to the respective farms.

¹ Otto Schiller, *Ziele und Ergebnisse der Agrarordnung in den besetzten Ostgebieten* (Objectives and Results of the Land Tenure System in Occupied Eastern Territories), Berlin: Reichsnährstandverlag, 1943.

² *Ibid.*, page 18.

³ *Ibid.*, page 22.

⁴ Otto Schiller, *Mittel und Wege einer beschleunigten Flurbereinigung und Reform der Flurverfassung* (Ways and Means of an Accelerated Rectification of Field Layouts and Reform of Land Tenure), Stuttgart: Ulmer-Verlag, 1949.

Since the individual farmland has to be divided in any case in order to meet the requirements of a rational crop rotation, German agricultural experts recommended a minimum of six parcels to be established by the rectification procedure. It thus takes only an appropriate distribution of these parcels within the fields of the community area to provide the possibility for cooperative cultivation. The decision of whether or not this method shall be applied, must, of course, be left entirely to voluntary agreements between the participating farmers.

Cooperative working methods do not necessarily result in inflexible and unchangeable systems forcibly imposed on all participants, but do provide for temporary joint cultivation on certain fields of the rotation system. In my above-mentioned pamphlet I have described methods of this kind under the term of "partially combined rotation." The profitable use of tractors might not be the only reason for consenting to such arrangements. They might also seem desirable for the rational application of other collectively used farm implements (particularly on crops generally covering but little ground) such as potato diggers, for instance, flax-breaking machines, and others. Joint combatting of pests, collective application of spray irrigation facilities, the establishment of a joint seed production and other projects may likewise call for this arrangement. The aforementioned pamphlet mentions as practical examples various German communities where a voluntarily-unified rotation had been realized under very similar methods as described in my article in question.

German experience in collective crop rotations spreads over centuries. I refer now to the historic three-field-rotation which for almost a millenium was the prevailing operation system in German agriculture. That the fixed rotation under this system curtailed agricultural progress is true; but it never yielded such results as are predicted by Professor Brandt in evaluating the introduction of collective crop rotations in the future. The old fixed rotation, though it restricted in part the farmer's right of independent planning, nevertheless left to him sufficient leeway. A modern, fixed rotation will not turn out differently if it is cooperatively implemented on the basis of a rational rotation system. Under the old three-field rotation the farmers were, of course, free to sell or lease parts of their land, or to buy or become leaseholders

of additional land, so as to adjust the size of the property to the family's working capacity. There would be no reasons to eliminate these possibilities under a modern co-operative cultivation system.

The co-operative use of farm machinery is today a common practice in Germany as well as in other countries. Naturally, it restricts the farmer's prerogative of operational planning to a certain extent, as for example, his free choice of the time to operate a certain piece of machinery. The co-operative or collective system, promotes in other respects the progress of agricultural production. We aim at a regional unification of varieties in grain and potato cultivation, in fruit growing, etc. This objective can be achieved only if the farmers voluntarily renounce their rights of independent choice of varieties and, in the interest of all, submit themselves to the desires of the communities. This applies also to livestock breeding, especially in communities where co-operative-keeping of male breeding animals prevails. A common crop rotation, which unifies only part of the cultivated crop varieties, but otherwise allows for sufficient leeway for individual cultivation plans, could be realized on a basis similar to that of above-described methods already in use today. Livestock breeding in the farming cooperatives is practiced principally on an individual basis. This has been clearly stated in my article. Professor Brandt, therefore, errs when he terms in his appraisal the operation of livestock a "collective enterprise."

The problem of the manager, as outlined by Professor Brandt, could be solved by adopting the pertinent policies of farm-machinery co-operatives, for example. If a farmer leaves the farming co-operative, the same problem arises as if he withdrew from a farm-machinery co-operative; why not solve the problem the way the farm-machinery co-operatives do? Thus it is evident that the "farming co-operative" cannot be considered a "large estate" or a "factory"; it is, in fact, a co-operative alliance of individual rural enterprises which preserves to a large extent their independence.

The application of co-operative methods in the cultivation of undeveloped countries like India or Indonesia has not been commented on in my article. I want to point out, however, that experiments¹ with co-operative

¹ W. B. Donde, *Co-operative Farming in Maharashtra* (Bombay: 1949).

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cultivation in India (Maharashtra,) Palestine (Kvutza), Italy, Mexico and other countries are far more drastic than the system described in my article. There, the entire land is thrown into the pool and thus eliminates, similar to the practices under the Russian kolkhoz system, individual cultivation of co-opland. Such a procedure requires, of course, comprehensive bureaucratic efforts to account for the members' shares in the profit which is done either on the basis of work performed or capital contributed. If, however, a co-operative insists on individual harvesting, as is the case under the system suggested in my article, these difficulties never arise.

Professor Brandt's cruel image of the Procrustean bed, a forced system, to which free peasants somewhere in this world shall be subjected, has never existed in my mind

when I advocated the co-operative system. If this had been the case, I probably would have derived similar conclusions, especially after my peace-time experiences in Russia. I observe, however, that co-operative ideas in the field of agricultural marketing as well as in agricultural production are progressing more and more in Germany and in other countries. The co-operative procedure inevitably involves renouncement of certain individual prerogatives and voluntary submission to a community. If this is done on a voluntary basis and in accordance with Western cooperative principles which uphold the claim to personal property and shut out inflexibility of schemes the free peasantry will not be abolished thereby but effectively promoted in its economic development.

OTTO SCHILLER

Stuttgart, Germany

Is City Growth Controlled By Mathematics or Physical Laws?

MANY students of the physical sciences believe that economics, sociology and urban geography can never become true sciences until they are reduced to mathematical formulae. Scholars in the field of urban real estate have proclaimed that urban land economics is in the same stage of development as medicine was before Pasteur. While Anton Carlson, the noted physiologist, said that the social sciences could never become true sciences unless every person could be inclosed in a vacuum tube and his reactions studied under the microscope from birth to death, many specialists in these fields dealing with human relationships believe that some day, by long, laborious research the laws of interacting social phenomena, now hidden like detached pieces of a picture puzzle, will be discovered.

One formula which is said to explain the size of cities in the United States has been evolved by George Kingsley Zipf¹ and it has been recently referred to by Professor John Q. Stewart of Princeton University.² Known as the rank-size rule, this sets forth the proposition that if the cities in the United

States are arrayed in order of their population size, the first city will have approximately twice the population of the second, three times the population of the third and so on until the largest city is found to have about 100 times the population of the 100th city; 1,000 times the population of the 1,000th city and about 3,464 times the population of the 3,464th city. Or, put in another way, the 10th city in order of rank has 10 percent of the population of the largest city; the 100th city has one percent of the population of the great metropolis and the 1,000th city has one-tenth of one percent of the population of New York. The relationship is not claimed to be exact, but this is such an interesting thesis that it invites examination.

We propose to test this theory as follows: *First*, to what extent does the population within the corporate limits of cities in the United States conform to this formula? *Second*, what would be the results if metropolitan areas in the United States were taken instead of the corporate limits? *Third*, is this theory applicable to cities in foreign countries?

1. *Population Within the Corporate Limits of New York City as a Multiple of Population of Other Cities in the United States in 1951.* In 1950

¹ *Human Relations and the Principle of Least Effort* (Harvard University: 1949).

² "The Mathematics of Big and Little Business," *Public Relations Journal*, April 1951.

this theory would require New York to have twice the population of Chicago; three times that of Philadelphia; four times that of Los Angeles; five times that of Detroit; ten times that of Boston; 25 times that of San Antonio; 50 times the population of Norfolk and 100 times the population of Montgomery, Alabama. In fact, New York City had 2.17 times the population of Chicago city, the second city; 3.8 times the population of Philadelphia, the third city; 4 times the population of Los Angeles, the fourth city; 4.25 times the population of Detroit, the fifth city; 8.33 times the population of Baltimore, the sixth city; 8.71 times the population of Cleveland, the seventh city; 9.2 times the population of Washington, the ninth city; 10 times the population of Boston, the tenth city; 19.3 times the population of San Antonio, the 25th city; 41.6 times the population of Norfolk, the 50th city and 74.6 times the population of Montgomery, Alabama, the 100th city. In 100 cities arranged in order, there is a reasonably close fit only in the case of Chicago—2.17 times instead of 2 times; Los Angeles—4 times compared with 4 times, and Boston—10 times compared with 10 times—or four cities out of 100. If New York City had grown to a population of 10,000,000 by 1950, the rank-size theory would have been closer to reality.

2. *Metropolitan Area Populations in the United States Related to the Size of the Largest Metropolitan Area 1950.* It is generally agreed that the corporate city limits are arbitrary, artificial boundaries and that the true test of the size of any urban agglomeration is the population of the metropolitan area, or the central city including the incorporated suburbs and the closely settled adjacent fringes of houses. Taking metropolitan areas as the unit, it is found that the New York Metropolitan area is a smaller multiple of the other metropolitan areas for all areas after Chicago and Los Angeles than the rank-size rule would indicate. Thus, the New York metropolitan area has only 5.8 times the population of the San Francisco area—the 7th area; only 8.7 times that of Washington—the 10th area; only 22.4 times that of Louisville—the 25th area; only 35.2 times that of Knoxville—the 50th area and only 74.6 times that of Lansing—the 100th metropolitan area. In the United States it makes little difference whether corporate limits of cities or metropolitan areas are taken as far as the rank-size rule is concerned. The deviation of the facts

from the theory is about as great in either case.

3. *The Rank-size Rule in Nations Outside of the United States.* The cities or metropolitan regions of the United States, arrayed in order of size, do show a gradual declining curve from the largest to the smallest, even if the progression does not conform closely to the rank-size rule. If this is a law of physics, it should, however, apply to all nations, or at least to other large countries like the United States.

As the table indicates, however, the United States is practically the only nation where this rank-size rule applies even on a very rough approximation. Instead of being twice the size of the second city, the largest city in ten other countries is from 1.25 to 7.56 times as great.³ The metropolis of these countries is from 1.6 to 7.56 times as large as the third city; from 2.27 to 10.5 times as large as the fourth city; from 2.45 to 11.9 times as large as the fifth city; from 3.6 to 16.3 times as large as the sixth city; from 4 to 20 times as large as the seventh city; from 4.3 to 33.3 times as large as the eighth city; from 5.2 to 37 times as large as the ninth city and from 5.4 to 39 times as large as the tenth city. Only the fifth, sixth and seventh cities of Russia; the fourth city of Japan and the sixth cities of Australia, Canada and China fell even approximately in line with the rank-size rule among the first ten cities of ten nations.⁴ Continuing the examination to the smaller cities of these nations, the largest city is from 8 to 55 times as large as the 15th city; from 10 to 90 times as large as the 20th city and from 11.6 to 97.6 times as large as the 25th city.

Rank and Size of Cities in Different Nations

The relation of the size of the largest metropolis to the other cities varies in different countries. London in England, Paris in France, Madrid in Spain, Buenos Aires in Argentina, and Mexico City in Mexico are the dominating cities of their countries, with 5 to 8 or more times as many persons as the second city. In some nations the second city is not far below the first in size as in the case of Moscow and Leningrad in the Soviet

³ Because of the lack of data on population by metropolitan areas of the smaller cities in foreign countries, the population in the corporate city limits is used.

⁴ U. S. S. R., Germany, Japan, Great Britain, Canada, China, India and Pakistan, Australia and New Zealand, France and Italy.

TABLE I—NUMBER OF TIMES POPULATION OF LARGEST CITY IN EACH NATION EXCEEDS THAT OF 2ND TO 10TH, 15TH, 20TH, 25TH, 40TH AND 50TH CITIES IN THE RESPECTIVE NATIONS*

	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	15th	20th	25th	40th	50th
<i>Rank Size Theory</i>	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0	15.0	20.0	25.0	40.0	50.0
<i>Nations</i>														
1. U.S. A. 1950	2.17	3.8	4.0	4.25	83.3	8.71	87.1	9.2	10.0	13.5	17.3	19.3	31.6	41.6
2. U.S. Metropolitan Areas 1950	2.34	2.96	3.51	4.32	5.47	5.80	5.83	7.7	8.7	14.3	17.7	22.3	31.4	38.2
3. Canada 1941	1.35	3.3	4.1	5.4	5.8	6.0	8.6	9.6	10.1	17.4	25.3	30.0	43.8	53.0
4. Great Britain 1949	7.56	7.56	10.4	11.9	16.3	16.5	17.1	19.0	21.5	30.0	37.0	46.4	61.7	70.0
5. U.S.S.R. 1939	1.3	4.9	5.0	5.1	6.4	6.8	7.1	8.0	8.1	10.3	14.5	16.2	20.9	25.8
6. Germany 1946	2.28	4.24	5.24	6.0	6.5	6.8	7.3	7.5	7.6	9.8	13.5	17.0	28.3	33.4
7. France 1946	4.26	6.0	10.5	10.7	13.3	13.6	14.4	15.3	15.6	25.2	27.0	30.0	42.2	51.4
8. Italy 1949	1.28	1.62	2.27	2.45	3.6	4.3	4.9	5.2	5.6	10.0	12.1	15.4	21.4	23.3
9. Japan, 1940	2.1	5.1	6.2	7.0	7.0	20.0	22.2	26.0	39.1	....	....	....	....	....
Japan 1935	1.96	4.7	4.7	6.44	8.4	19.0	20.3	25.5	26.7	30.3	35.4	42.0	....	....
Japan (latest)	1.67	2.05	4.0	4.6	5.4	15.7	16.8	21.0	31.2	....	....	....	....	....
10. India 1941	1.4	2.7	2.72	3.1	3.6	4.0	4.3	5.4	5.4	8.0	10.0	11.6	16.0	16.7
11. China (latest)	4.0	4.6	6.0	6.0	6.5	8.0	11.2	11.8	12.0	....	....	....	....	....
12. Australia 1947	1.25	3.7	3.9	5.4	11.7	19.4	33.3	36.7	37.1	55.0	90.0	97.6	....	....
13. Latin America (latest)	1.77	1.80	2.28	3.1	4.1	4.67	6.0	6.18	10.0	....	....	....	....	....

* Population of U. S. Cities from 1950 U. S. Census. Population of foreign cities from 1950 *Statesmen's Year Book*, 1951 *New York World Telegram World Almanac*, and United Nations Technical Assistance Administration

Union, Sydney and Melbourne in Australia, Rome and Milan in Italy and Calcutta and Bombay in India. In a number of countries there is a sharp break in size at certain ranks. Thus in Japan after the first six cities with 1,000,000 or more population, the population of the seventh city, Hiroshima, is only 344,000. In the United Kingdom, after London with 8,390,000 population, there are three cities of approximately one million population—Birmingham, Glasgow and Liverpool. In China, after Shanghai with 6,000,000 population, there are six cities from 900,000 to 1,560,000 population—Pieping, Tientsin, Hong Kong, Nanking, Chungking and Canton. In Russia, the second rank after Moscow and Leningrad contains Kiev, Kharkov, Baku, Gorky and Odessa with from 600,000 to 850,000 population each. In Germany after Berlin and Hamburg with 3,187,470 and 1,403,300 respectively, there are 9 cities with 465,000 to 750,000 population, and after them are 13 cities with populations of 200,000 to 395,000.

Thus, the rank and size patterns of cities in different nations vary greatly. The size of any given city depends primarily upon its economic base, or the advantages of the location as an efficient place for trans-shipment of goods as a great port, such as London or Shanghai, or an efficient place for manufacturing such as Chicago, Detroit, Pittsburgh or Birmingham (England), or as a political capital of a large nation, such as Moscow, or combinations of advantages as political, manufacturing, transport, trading, financial or tourist centers. These complex and varied forces determining the size of the population that can be supported at any given site on the earth's surface vary according to adjacent natural resources, the area, population and wealth of the national territory, the extent of centralization of government, the transportation facilities, the climate, the trade with other nations and other factors. The elements affecting population growth cannot be charted without a thorough study of the unique combination of geo-

graphic, economic, social and political factors at work in each urban community.

What service is performed in formulating a rank-size rule which is widely at variance with the facts in the only country—the United States—where it has the slightest semblance of reality? Would it not be better to set forth the actual figures as I have done in the table accompanying this text, without attempting to evolve a formula that would lead to new errors, and which would conceal the real problems under the masquerade of mathematical symbols?

There have been numerous recent examples in articles in the field of the so-called "social sciences" where advancement of knowledge has been given a setback by mathematical formulae, which give the appearance of finality and certainty to subjects concerning which little is really known. There is slight utility in mathematical symbolism or elaborate equations dealing with concepts of dubious validity.

Great progress has been made in the social sciences by the use of statistics. Wesley C.

Mitchell's monumental work on business cycles is one of the most outstanding contributions to economic theory that has been made in the twentieth century. The comparison and correlation of different series of numerical data sometimes establish new principles or tendencies that were not known before. Even if new principles are not evolved, statistical analysis is necessary to show the exact relations that do exist in complex modern society. To be of the greatest service to the advancement of knowledge, however, such formulations, whether in the form of charts or equations, should stick meticulously to the facts. There is an impelling desire on the part of every scientist to discover some new law or principle, but the facts should never be distorted to fit into the conceived pattern, and exceptions or deviations from the assumed law should be carefully noted.

HOMER HOYT

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Book Reviews



A National Agricultural Policy. By Leonard Hastings Schoff. New York: Harpers and Brothers. 1950. pp. IX, 153. \$2.50.

This volume is an outgrowth of the Columbia University Seminar on Rural Life. Frank W. Cyr's observation in the introduction that "the ideas presented are not intended as final answers" describes the book better than the author's statement that the objective of the study "has been to determine a national agricultural policy for all of the people. . ."

Chapter one reviews some of the characteristics and problems of agriculture. In view of the fact that this volume may receive attention from many who may be without close contact with farming, a more comprehensive background discussion would have been useful. Chapter two considers rural areas of low incomes. The treatment puts uninitiated readers on guard against the too common error of viewing farms and farmers as if they were all cast in the same mold. It does well to make clear the ineffectiveness of price supports as aids to low-income farmers. While there is much of merit in this chapter, some broad conclusions rest on meager evidence. For example, the lack of "educated management and sufficient investment" seems to be viewed as the reason why the South does not lead in dairying (pp. 20-21). The author apparently concludes that the major reason for areas of low income is "that the land has been divided into acreages too small . . ." (p. 23). It is difficult to visualize the transformation of over-populated southern highlands into important agricultural areas merely by enlarging the size of the unit.

Chapter three discusses farm surpluses. A number of excellent points are made but the analysis of agricultural prices and business cycles falls far short of being exhaustive. One may question whether the author in his emphasis on administered prices has recog-

nized fully that price maintenance in depression by means of restricted volume fails to maintain income. Focusing attention on price may lead to the conclusion that the farmer is worse off relatively than he really is. The "ever-normal granary" idea apparently is accepted as suitable for surpluses due to favorable seasons. A review of actual experiences with the plan and analysis of some operational problems would have been useful. Flexibility in price supports and a food stamp plan are favored.

Chapter four discusses inheritance of farm property. A "farm-family life-trust agreement" is proposed. The difficulties faced by one heir in buying the interests of other heirs are those of any buyer with limited capital. Attention might well have been given to the proper valuation of the farm as an important factor in this situation.

Chapter five considers agricultural depression and industrial employment. Chapter six is a summary. The author might have difficulty in locating agricultural economists who subscribe to "agricultural fundamentalism" (p. 115). There are places where the author seems to lean in this direction himself.

A small volume could not encompass all important phases of agricultural policy. Some additional ones, however, might have been considered even at the expense of condensation of others. International aspects of the question are barely mentioned and those references suggest doubts about the adequacy of the analysis. However, this book, in spite of its limitations, should help stimulate interest in some problems of major importance.

O. B. JESNESS

University of Minnesota



Transit Modernization and Street Traffic Control. By John Bauer and Peter Costello. Chicago: Public Administration Service, 1950. pp. xiii, 271. \$5.00.

Messrs. Bauer and Costello in their new book have made an important contribution

in a field which suffers from a dearth of general literature by authorities of recognized ability and objectivity. The title provides a clue to the central ideas—that solutions to the increasingly distressing problems of urban mass transit and inefficient utilization of city street facilities are inseparably interwoven and that a bold program of municipal action on both fronts, centered in a single agency, offers the only hope for alleviation of either transit or traffic problems. The authors believe that the way out for most cities lies in a vigorous modernization program centering on busses rather than streetcars or trolley coaches. Such a program, when combined with thorough-going municipal regulation of and interest in the transit system, can result in getting unnecessary automobiles off the streets, faster and better service, and financially successful operation.

The first eight chapters deal with the need and outlook for modernization, frequently repeating the arguments for the superiority of busses vis-a-vis PCC cars and trolley coaches. The most important of these is the flexibility of busses—that is, the possible use of through express service to attract automobile users from outlying districts and the ease with which schedules and routes can be changed to cope with changes in population patterns and economic conditions. Included in this section is a chapter providing extensive detail on the physical composition of existing transit systems.

The last five chapters concentrate on finance and management. The discussion of the legal and financial problems involved in sharply reducing overcapitalization seems very much oversimplified. Dr. Bauer's controversial proposal to pay fixed dividends on common stock (after this has been revalued) is included as a step necessary to successful financial management and effective municipal control. At one point the authors endorse tax subsidization in exceptional cases, on the ground that transit services provide benefits to business and real estate owners, as well as to users. While it seems appropriate to recognize that there may be special cases requiring distinctive treatment, the transit management should not "be basically unconcerned whether the needed moneys are provided by the riders alone or in part through taxes on behalf of the community at large." Practically every industry providing widely-consumed products or services inci-

dentally provides community benefits, and yet few would assert that *all* purchasers of automobiles, housing, food, or medicine should be subsidized. Furthermore, if the management is unconcerned as to the magnitude of user revenues relative to costs, the basic incentive to efficiency and the basic criterion for determining services and facilities are undermined.

Chapter X, treating the fare structure, is one of the most valuable sections of the book. The proposal for greatly increased flexibility through non-rush hour differentials and higher fares for extra services can be rejected only by those managements dominated by tradition and inertia. A "fare equalization reserve" is suggested to guard against frequent and minor changes in fares and to protect investors; this proposal has interesting cyclical implications which might well be explored in greater detail elsewhere.

In numerous instances the authors make their points by assertion rather than by the marshalling of empirical evidence or the presentation of conclusive reasoning. Despite the repeated statements to the effect that actual local conditions should be the basis for policy, there are surprisingly few illustrations; the examples that do appear sometimes refute rather than support the basic argument. There are virtually no footnotes or bibliographical material.

Appearing as it does at a time when rearmament is likely to curtail deliveries of new equipment and thus provide a breathing space for reconsideration of current policies, this book, despite its shortcomings, has much to offer policy makers in the transit field. During this "breathing space," if there is to be one, transit and traffic problems are likely to become more acute, and Bauer and Costello offer a positive approach to their solution.

D. NETZER

Federal Reserve Bank of Chicago



World Resources and Industries: A Functional Appraisal of the Availability of Agricultural and Industrial Materials. By Erich W. Zimmermann. New York: Harpers and Brothers, revised edition 1951. pp. xvi, 832. \$7.50.

The appearance of a revised edition of *World Resources and Industries* is an event of

some importance to land economists. For nearly a score of years this book has been unique in the field of resource evaluation. Now Professor Zimmermann has made a very thorough revision that deserves better to be described as a new textbook than classified with the warmed-over printings so often announced as revisions. The two editions of this book have the same purpose and the same plan of organization, but the latter version has been largely re-written. It is considerably expanded, and it is almost aggressively up-to-date in its presentation of facts, references, and ideas.

Those acquainted with the former edition will find its essential spirit unchanged in the new book. The author has developed his basic concepts more fully with the result that certain sections, such as that dealing with the resource concept, are longer. The process of bringing the subject-matter up-to-date has lengthened other sections; the discussion of power sources now includes a section on atomic energy, for instance, and the history of the conservation movement has been lengthened by the addition of the two new "eras" associated with the New Deal and with World War II. It seems probable, however, that the greatest change derives from the author's attention to contemporary developments in international affairs. The discussions of resource patterns, population distribution among nations, and the international distribution of energy and minerals are given increased emphasis. More attention is given to national controls, spheres of influence, economic exclaves, and power politics. The chapter on foods and foodstuffs deserves special mention in any bibliography of "food economics," particularly in its international implications. Professor Zimmermann appears to be increasingly impressed with the role of governmental policy, as contrasted with purely economic or physical standards of resource interpretation. The result is that this book on world resources is realistically oriented to the facts of the world in which we now live.

World Resources and Industries is a large volume with 50 chapters and more than 800 pages of text. The large page size and the two-column format are similar to those used in this *journal*, and it is likely that the actual text is about two-thirds longer than in the original edition. Among the new features are 32 unnumbered pages of good photographs and about 25 pages of chapter-end bibliog-

raphies. In general appearance this is a very impressive book.

The task to which the author has set himself is no less impressive since he undertakes to discuss a great variety of natural resources from several different viewpoints. Professor Zimmermann admits in his foreword that he does not discuss (1) tobacco and (2) the building industry, but it appears that he has discussed practically every other natural resource. Considering that this analysis incorporates the viewpoints of economics, geography, industrial technology, and natural science, with overtones of history and social philosophy, it represents a task of heroic proportions. To the author's very great credit, it can be said that his book is well-rounded and scholarly, yet highly readable.

As formerly, the book is organized in four major divisions. The two middle sections—comprising four-fifths of the text—are devoted to a detailed discussion of specific resources, grouped as resources of agriculture (Part II) and resources of industry (Part III). Since few people are equally interested in such diverse resources as coffee, copper, and synthetic fibers, it is probable that many readers will use this book primarily as a reference to be consulted on the particular resources in which they are most interested. Every reader of this *journal*, however, is well advised to read the first and last sections.

Part I deals with the meaning of resources in relation to man. Professor Zimmermann's thesis, carefully and consistently presented throughout the book, is that natural resources can be evaluated only in relation to mankind living in a highly variable social-economic-technological-political milieu. The gifts of nature are resources only to the extent that men need them, can reach them, and have the knowledge to use them. Evaluation of a resource, then, is a dynamic process, changing with every development that affects man's relationship with nature. Technological invention is an important criterion, of course, but the author is equally aware of the role of economic and political institutions. Here, as in few other books dealing with natural resources, are successfully amalgamated the hard tangible facts of the physical sciences and the more elusive, subjective considerations of the social sciences. Professor Zimmermann discusses the chemistry of sugar, the facts of life in animal breeding, and the technology of rayon manufacture. He also

discusses demographic patterns, the significance of the corporate form of business organization, and Brazil's coffee "defense" policies. The reconciling factor is the functional concept of resources outlined in Part I. Within this framework, the discussion of population, resource patterns, and changing uses of energy have particular significance.

Part IV, a relatively few pages devoted to conservation, may disappoint those who expect a conventional treatment of the subject. It is as though the author at this point relies upon the reader to appreciate that the preceding 48 chapters all deal with conservation and that there is little else to add. Professor Zimmermann, suffice to say, does not expound the semi-religious doctrine of conservation; in fact his functional concept of resources precludes the narrow, single-valued approach. He is content here to analyze the historical development of the so-called conservation movement and to work out a conceptual definition of conservation. In so doing, he clearly points out the issues involved and distinguishes between the conflicting ways in which the word "conservation" is used.

This reviewer is not aware of any important short-comings of this book. Water resources have been treated primarily as a source of power, and it might be wished that water use for irrigation, industry, air-conditioning, and other purposes had been discussed as well. The book is rather long and may not be particularly well adapted to supplementary classroom use unless the instructor is prepared to spend considerable time on the subject. The diagrams illustrating concepts (such as that on page 13) have an esoteric flavor that is less well suited to a book than to a blackboard demonstration by the author himself. Professor Zimmermann's ability in high-order abstraction is welcome in a field usually confined to factual description; yet, his distinctions between "man" and "MAN" and between "economization," "conservation," "conservancy," and "economancy" may appear somewhat unnecessary.

Such petty criticisms do not affect the conclusion that this is an extremely readable and forceful book. It is crammed with facts, well-documented and authoritative, but the author has the rare ability to subordinate details to the main theme of his discussion. Professor Zimmermann has carefully discussed many aspects of a broad and complex

field, yet has succeeded in emphasizing the most important relationships. This is a book of ideas rather than an encyclopedia of facts. It represents an outstanding, if not unique, contribution to the better understanding of resources in the modern world.

C. W. LOOMER

University of Wisconsin



Transportation. By Charles E. Landon. New York: William Sloane Associates, Inc., 1951. pp. 601. \$4.75.

On the occasions, such as national association meetings, when the group of transportation specialists get together, the subject of informal discussion often turns to what kind of an introductory textbook each would like, and the weaknesses and omissions of the then existent supply.

While no two transportation economists could probably ever agree on all desirable features of a textbook, the consensus this reviewer gathered included: (1) there has been too much emphasis on regulation; (2) because the writers were primarily academic in background, they never quite succeeded in making the operations, characteristics and uniqueness of each form of transport stand out or "come alive"; (3) they were either crammed with regulatory principles and court precepts or largely just descriptive, not analytical; (4) the reader never was given a clear picture of transportation process—how freight actually moved, what the shippers, consignees and transport agencies actually did to it, where various costs originated, and what the practical process of rate making actually was; (5) because of the complexity and overlapping of the subjects, some texts were unduly repetitious and poorly organized; (6) few of them—practically none, in fact—after calling themselves "principles of transportation," emphasized enough principles that the average student could name you a half dozen at the conclusion of the course.

With these objections in mind, the reviewer examined Mr. Landon's book with considerable interest and the hope that the answer to our textbook needs was at hand. The Table of Contents suggested some good features: a chapter on "Geography of Transportation," a subject in which our geographers have done much better than we transport economists, a

chapter each on "Business Organization for Providing Transportation Services," "Advantages and Disadvantages of Different Modes," "Technological Progress," "Terminals," and a much desired one on "Urban Transportation." This reviewer has wondered for 30 years of study and teaching why urban transportation is kicked over into Public Utilities, where it gets treated with much less attention generally than telegraph lines or inn keepers!

Mr. Landon divides his book into six parts, with the first the usual introductory pages. Part Two, with 11 chapters, describes the physical facilities, business organization and a hint of transport technology. Like so much of the book, the attempt is made to cover too much subject in too short a space; for example, $2\frac{1}{4}$ pages to the organization of carriers, one page to industrial traffic management, less than one page to characteristics and advantages of pipelines. The inevitable result is superficiality, too many items merely mentioned in passing. It is not enough to state, as in the preface: "Numerous topics are discussed only briefly, with the hope that students who are interested will pursue these subjects further on their own initiative." This reviewer feels that if one is to present a basic text, then basic elements should be given adequate discussion.

In this connection comparison in size to another recent transportation text shows that Landon's is only about 40% of the length of Fair and Williams' book, yet it purports in Contents to cover a greater range of subject matter.

For the reviewer or student seeking analytical approaches to transport problems, particularly in relation to costs and service, a twinge of agony results from Landon's dismissal of the diesel locomotive in three brief sentences of his chapter on "Technological Progress." To cover terminals: facilities and problems, for all forms of transport, in 15 pages is an impossibility without achieving mere mention at the expense of analysis and adequate discussion.

Part Three considers "Rates and Their Economic Effects," with chapters devoted to "The Nature of Transportation Costs," "Competition and Monopoly," "Rate Theories," "Rate Making," "Rates on Commodities and Between Places," "Rate Level." About 30% of the book is contained in Part Three, and the general impression left with the reviewer is that it is the best section in the

text. The author condenses the previously over-emphasized subject of valuation into a refreshingly few pages, and keeps under control the previously over-done attentions to the subject of discrimination. This reviewer's own observation on the subject of older textbooks' emphasis on discrimination is that many a bedeviled student staggered out of a transportation course with the impression that practically the whole subject was discrimination and "it sure was a nasty word and something ought to be done about it."

"Rate Making for Other Than Railways" is very weak by comparison. The chapter also covers the functions of rate bureaus, which are definitely part of railroad rate making hence errs in its title. Several other similarly careless titles are in evidence throughout the volume.

Landon's last chapter in Part Three is entitled "Effect of Transportation on Location of Industry and Commerce," and while some repetition of preceding material appears, in general it is an adequate summary of accepted theory on the subject. With increasing trends toward industrial decentralization, more attention should probably be paid this subject in transport analysis.

The book condenses into the 55 pages of Part Four the history of regulation, the principal features and a description of federal regulatory bodies. Compared to another text, which devotes 21 of its total of 24 chapters to regulation, this is indeed a contrast. Obviously much is omitted, and we must assume that the student is expected to take a course in government regulation of business if he is to secure an adequate background. A sample of Landon's concentration of material is the two pages used to cover service regulation of all forms of transport.

Part Five considers such special transportation problems as financial and accounting, government promotion of transportation, coordination, and labor. Here again extreme condensation is too evident, e.g., the subject of consolidation into two pages.

Part Six concludes the book with two chapters on "Future Demands for Transportation" and "Future Transportation Policy."

The conclusion of this reviewer, who has taught transportation for more than 20 years and been associated with almost all phases of the industry somewhat longer, is that this

book introduces some useful material but presents it so superficially for the most part as to leave a feeling of dissatisfaction. It would be most useful in junior colleges or institutions wishing to touch very lightly on transportation. Those of us looking for "the textbook," one which will adequately reflect the tremendous developments in transportation of the last 20 years, analyze them, and still teach our students the theories and economic principles of the subject, in comprehensive and interesting detail, have yet to see it written.

H. K. SNELL

The University of Texas



The Agrarian Problems of Madras Province. (pp. 332. Rs. 12/8) and *Sharing and Fixed Tenancy Systems.* (pp. 137. Rs. 3/-) Madras, India: Business Week Press, 1949. By V. V. Sayana.

These two books have been written with major emphasis on the agrarian problems of Madras Province but they cover problems which are faced by the whole Union of India. The author has published his findings in these books after a survey of selected villages in different tracts (regions) of the Madras Province (now called "Madras State" under the new Constitution).

The book, *The Agrarian Problems of Madras Province*, is devoted to four major problems: zamindari tenure system; land speculation and tenancy problems of royatwari (peasant proprietorship); rural indebtedness; and finally, the problem of increasing proletarianism in India.

In India there is no difference of opinion as to the need for the abolition of zamindari (feudal tenure). After documenting a large amount of data the author concludes: "The institution of the zamindari is thus rotten to the very core which does not leave any scope for mending rather than ending it. The sooner they are abolished the better for all concerned."

The State of Madras, like many others, has another type of tenure, the royatwari. Under this system the full proprietorship of land is vested in the State but the owner of the land gets the occupancy right, and he can give land on hire, lease it, bequeath it, or sell it. Under royatwari tenure the problem, according to the author, is that more and

more land is going into the hands of the tenants for cultivation. This has affected the production efficiency. The author believes that "the problem of tenancy has been rendered more acute owing to leasing out of lands . . ." and that "due to concentration of land, the economic maladjustment has been intensified." After reviewing the different acts regulating the tenancy systems, the author states that the legislation should aim at "preventing land from passing into the hands of the lessors, disposal of land by small holders to big holders and concentration of property above the maxima fixed in different regions."

The author advocates state control over land transfers: in other words, he wants state control over the marketable nature of land. The State of Bombay having done this is now faced with shrinking credit facilities. No money-lender feels safe as he cannot take land as a surety. Again, efficient farmers, who are constantly trying to increase their holdings in a country where the average size is five acres, will be hard hit if an arbitrary maximum limit of say twenty acres is imposed. If land is not allowed to be transferred to the more efficient users then it will certainly affect adversely the productivity of land. This book presents a number of facts about rural indebtedness and the plight of the agricultural laborer. However, this reviewer fails to see the reasoning of the author in coming to diametrically opposite conclusions in the second book with respect to the problem of cash versus share tenancy. In *The Agrarian Problems of Madras Province* he concludes: "However, it is recommended that crop-sharing system (palu) may be prohibited in all its forms and fixed rents in kind or money, whichever would be convenient and to the advantage of the tenant, may be paid." (p. 315) But, in *Sharing and Fixed Tenancy System* the author states: ". . . there is nothing fundamentally wrong with the form of share tenancy, which, if properly amended, would prove probably more advantageous to the tenant under the physical and economic conditions prevailing in India." (Italics added)

Both books do advance some sound principles on tenancy problems and regulations. The author shows his ability to understand the problem as a whole in establishing a relationship between apparently different factors affecting Indian agriculture. The

author's review of Indian agricultural legislation is a significant contribution to the studies in agricultural economics being made in India.

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S. G. MADIMAN



Uncle Sam's Acres. By Marion Clawson. New York: Dodd, Mead & Co., 1951. pp. 414. \$5.00.

Dr. Clawson has rendered a useful service and done a good job in bringing together a description and appraisal of our federally-owned lands and waters and of the policies that control their use and development. He describes Uncle Sam as a landlord, how he came to be a landlord, what he has done as a landlord, what his lands and waters are like, how he carries out his landlord functions, how his lands and waters are used. He appraises "policies and politics" as they bear on Uncle Sam's functioning as a landlord. He writes well and simply. He holds to a minimum the use of figures and dates and details of legislation. The book is well within the grasp of laymen and high school and college students. Given only that the reader is interested in the federal lands, the book will be read easily and it will hold the reader's interest.

Dr. Clawson comes to the subject from a background of rich training and experience. Born and reared in Nevada, educated at the University of Nevada, a Ph.D. in agricultural economics from Harvard University, for many years engaged in research in the economics of western land and water use and the economics of the western livestock industry for the Bureau of Agricultural Economics of the United States Department of Agriculture and for the past two years Director of the Bureau of Land Management in the United States Department of the Interior, his grasp of the problem is broad and the penetration of his experience is deep.

One of the more striking characteristics of his presentation is its balance. Except that the fly-leaf states that he is Director of the Bureau of Land Management, one would never guess it from the book. He treats all the federally-owned lands and waters and the agencies that administer them equally. He lets the chips of his appraisals fall where they may. He is as frank in his appraisals of the

Bureau of Reclamation—a fellow Bureau within the Department of the Interior—as he is of the Corps of Engineers, a Bureau in another Department. His treatment of the land management policies of the Forest Service is well balanced. He gives it all due credit for the excellence of its policies and the high plain of its behavior as a public administrator; but he also points up criticisms and raises questions of Forest Service policy where criticism and questioning is due. He does not take any partisan position relative to Forest Service-Bureau of Land Management differences nor does he take a one-sided view of the Hoover Commission split over the question of who should administer the public lands and waters. Dr. Clawson has done an admirable job of presenting the issues fairly but of leaving little question as to where he stands, personally, on those issues. Where he stands is by no means narrowly partisan in favor of his own Bureau or his Department.

Two minor—very minor—points of criticism of his treatment, one of omission and one of commission, can be mentioned. In his treatment of Uncle Sam as a landlord, he describes the sense in which Uncle Sam may be referred to as a landlord: "... as one who owns property that he lets others use in return for a payment, under terms and conditions which he specifies. . . ." and he points out that "... the Federal Government is in a position where its example as a landowner is probably far more important than its preaching. If it really seeks wise and enduring land use as a national policy, then let the Government practice it on its own lands." The omission lies in his preference to "wise and enduring land use" only. Landlordism also involves the problem of wise, enduring, stable and equitable relations with tenants. Much of the conflict between users and government over the public lands, particularly in the west, stems from the nature of government's actions as a landlord.

There is a wealth of materials available that analyze the landlord function in agriculture and that suggest desirable actions by landlords. Dr. Clawson has not appraised federal landlord behavior in the setting of these materials. It is probable that federal landlord behavior cannot be appraised with the same analytical tools that can be applied to private landlordism for the reason that private behavior is directed toward different ends than public action and for the further

reason that the institutional setting within which private landlordism functions is different from the setting within which federal landlordism operates. There have to date been no empirical or theoretical studies of landlordism by government at all comparable to those of landlordism by private parties. Much research needs to be done in this area, particularly if "... it appears that extensive federal land management is here to stay." Dr. Clawson has not made the same forthright reference to the need for the government to examine its behavior as a landlord and to set an example of sound landlordism as he has made to the need that it set an example of land management to secure wise and enduring land use.

His error of commission lies in his treatment of federal land purchase. On page 129 he says, "... a system of federal purchase of lands has grown up and become generally accepted. Its growth and acceptance are testimonials to the general popularity of the management of the federal lands." On page 137 he says: "In recent years, Congress has placed restrictive language in the appropriations for the Bureau of Indian Affairs, prohibiting the use of certain appropriated funds for the purchase of land for Indians in some states and even prohibiting use of Indian tribal funds for this purpose." And on page 322: "Many who would agree, perhaps reluctantly, that no major disposal of federal land is probable or even desirable, are opposed to any further purchases of land by the Federal Government, at least on a large scale ... There is strong opposition to any extension of federal land ownership ..." I doubt if the Forest Service would agree that the purchase of lands by the federal government is generally accepted, at least in many or most of the western states; neither would the experience of the federal land purchase program of the 30's seem to bear out his contention. He is too optimistic over the general acceptance of the idea of federal land acquisition.

But these points of criticism and others that might be mentioned are indeed minor. They do not detract from the over-all excellence of the treatment. The book should be used in college and high school classes as a reference for study of the public lands for, as Dr. Clawson says, "To a large extent, the history of the public lands in the United States is a history of the United States." Laymen con-

cerned with federal policy for dealing with federal lands will find the book very useful in giving that broad background picture necessary for understanding current issues and appraising current policies and proposals.

M. M. KELSO

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The Social and Economic Significance of Land Tenure in the Southwestern States. Edited by Harold Hoffsommer. Chapel Hill: The University of North Carolina Press, 1950. pp. xiii, 666. \$6.00.

This is a report of a regional land tenure research project begun in 1942 and sponsored by Texas, Oklahoma, Arkansas, Mississippi, and Louisiana in cooperation with the Bureau of Agricultural Economics and the Farm Foundation. The publisher claims that it is an epoch-making contribution to land tenure research because of the regional scope, its many-sided approach, and its well-defined conclusions.

The first of the eleven chapters is largely an introduction acquainting the reader with the nature and purpose of the study, the problems, and the description of the region and more specifically the sample areas. The purpose was to study farm tenure status in relation to farm family performance and, as a by-product, it was an experiment in regional research cooperation which was reported on earlier.¹

Chapter two, tenure and farm organization, is a big disappointment to the economist when an attempt is made to fuse farm management, land economics, and rural sociology to determine whether basic differences in farm organization can be attributed to tenure. Such things as size of farm, use of capital, land use, farm power, labor, gross income, etc., are described by tenure classes without much analysis. Size of farm was the only significant factor closely related to tenure. The old farm management analysis factors appear to be of little value in making a penetrating economic analysis of the significance of land tenure. However, it should be pointed out that the control program of the Agricultural Adjustment Administration

¹ See Hoffsommer, *Regional Research Cooperation* (Chapel Hill: University of North Carolina Press, 1949).

apparently had a "tremendous influence" on crop organization and probably other factors.

In chapter three, the socio-economic status of the farm family is discussed with the conclusion that the economics of scale of operations of the farm determines largely the socio-economic status of the tenure. Tenure alone neither determines nor limits the welfare status of a farm family. The chapter following points out some factors associated with changes in tenure status, while chapter five deals with leasing arrangements and landlord-tenant relationships. Other chapters on soil conservation, legal aspects and farm credit, use and source of capital, impact of federal programs, and community and institutional factors as related to land tenure discuss the underlying factors which influence the tenure status of individual farm families. None of these factors were shown to have very great influence for the area as a whole.

There are some 220 pages devoted to the appendix which covers the definition and explanation of terms, the general procedure for editing schedules, migration index, farm family socio-economic status scale, scale of operations and tenure, a bibliography of other studies in the southwestern region, and 107 tables of various statistics pertaining to land tenure. This is an important contribution of research methodology in this field. In this section is some documentation on the method of developing measures which were tested with data collected. However, the data were probably too limited to give a fair test.

This book on land tenure shows the shortcoming of what is often found in a regional research project, lack of sufficient coordination and synthesis of the several opinions in order to develop clear-cut economic principles that would be useful in developing a long range tenure policy. If research can be best regarded as an individual enterprise, will cooperative effort from a large group give us highest quality of research? Lack of agreement on terminology, approach or methodology often leads to mediocrity, unless one assumes dictatorial leadership in the cooperative endeavor.

In spite of its many shortcomings, the book constitutes a contribution to the literature of social sciences by providing a mass of statistical facts which describe and attempt to analyze "the effect of tenure factors on the social and economic accomplishments of the farm

family" for a five-state region and the thinking up to the World-War-II period. Despite many differences found in the region the report points up the homogeneity of several factors for the entire region; this is an important contribution of regional research.

Finally, on behalf of the several authors it should be stated that this report was restricted to an analysis and interpretation of the relationships of farm tenure factors to farm family performance "without regard to their evaluation in terms of welfare." This evaluation is reserved for a separate policy statement which is to be "developed [for the purpose of] translating into suggestions for social action those items which appear to need rectifying." This reviewer believes that the final appraisal of this regional study must await publication of the policy statement which, we hope, will include further interpretation, as well as evaluation, of the wealth of information in this book.

JOHN C. REDMAN

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Economic Geography of the U.S.S.R., Ed. by S. S. Balzak, V. F. Vasyutin, and Ya. G. Feigin, translated by R. M. Hankin and O. A. Titelbaum. American edition ed. by Chauncy D. Harris, with a preface by John A. Morrison, New York, 1949. XLV and 620 pages.

This voluminous book is a symposium by seven Soviet geographers and economists, among whom are B. L. Markus, the co-author of a standard work on economics of Soviet industry, and T. S. Khachaturov, the well-known Soviet authority on economics of transportation.

After a chapter on the general physical geography of the country (boundaries, geology, climate, and endowment with natural resources), the bulk of the book is devoted to the location of economic activities (or the "distribution of productive forces," in the parlance of the text) in Russia. Its organization is simple: a chapter on economic location before World War I is followed by a general summary of changes that took place under the Soviets till the end of the thirties; thereupon the four topics of population, agriculture, industry, and transportation receive more detailed accounts in as many chapters. The present volume,

which was published in 1940, was designed to provide a general survey, while a second volume was intended to deal with the individual regions, but it has not as yet been published.

Professor John Morrison's interesting Preface to the American edition places a good deal of weight on "Marxian dialectics" in the book and expresses the hope that the "discrimination of the American reader will be a fully adequate shield against conversion to an alien philosophy." Actually, there is little in the book which could be described as Marxian dialectics or as pertaining to theoretical Marxism in general, if such designations be given any precise meaning; although of course there is much stricture directed against capitalist countries, including pre-revolutionary Russia, and much glorification of Soviet achievements. Perhaps the only significant point in this respect is an attack upon geographic or climatic "interpretations of history." Quite a few statements are made that are both dogmatic and vituperative and, in special footnotes, Professor Harris corrects the authors' distorted presentation of the views of Alfred Hettner and Ellsworth Huntington. (He might have similarly corrected a distortion of Plekhanov's views). But all this is on a rather verbal level. In the chapter on agriculture for instance, it is said; "Many bourgeois scientists affirm that the distribution of agriculture is determined exclusively by natural conditions. Certainly, natural conditions have a tremendous influence on distribution; but to attribute the leading role to natural factors is incorrect. In the U.S.S.R. great changes in the distribution of agricultural crops have taken place since prewar times, although the climatic and soil conditions of the different regions have not changed. This fact shows graphically that the system of social relationships and the level of development of productive forces are decisive factors in determining the distribution of agriculture." (p. 361) This is a sensible statement, but all such terms—"exclusive," "leading," "decisive"—are, of course, just words without any precise meaning. Nor does the whole discussion have much practical value since the Russians cannot afford to disregard the importance of natural conditions in their economic policies.

Similarly, the immoderate criticism of Alfred Weber's location theory in the Introduction and elsewhere in the book, must be

taken with a grain of salt. On the one hand, it is quite correct to say that in a rapidly developing economy where industrialization proceeds, as it were, along a broad front, there are quite a few more variables with regard to rational location of industries than were contained in Weber's basic models. Naturally, in the dynamic process of industrialization, magnitudes that appear as "givens" in a static model are continually changing. Factors such as the character and distribution of the labor force, or such as the transportation system, are modified greatly as a result of far-reaching social and technological changes. This was true of all historical industrializations in the past and probably is even more so of Soviet industrialization because of its speed and comprehensiveness and because of dictatorial policies that can both shift large masses of laborers over vast stretches of the country and tie the laborer to the factory. Thus, even if no heed is paid to military determinants in Soviet economic policies, it is fairly clear that the Russians had no reason to base them on any static theory of location to the exclusion of other considerations.

On the other hand, however, the weight of Weber's determinants of economic location could not be neglected, and it is interesting to note throughout the book how frequently specific locations of industry are explained strictly in terms of traditional Weberian models. This is true, to mention only the most important cases, of the way in which the location of the iron-making industry and its shifting in recent times from coal to iron ore sites is interpreted (p. 243); or of the location of ferromanganese production (p. 252), and of the location of automobile plants (p. 281).

This once more confirms the basic impression of this reviewer of the small, if not negligible, role played in Soviet Russia by any specific theory or ideology as a determinant of economic policies. It is much more plausible to assume that the Soviet government proceeds pragmatically: confronted with practical problems, it seeks for practical solutions and in so doing it is very little influenced by Marxian dialectics or any other portion of the Marxian system. The function of "ideology" is essentially to justify decisions taken on very different grounds.

In fact, the present book shows this with particular clarity. It was written after the eighteenth Congress of the Communist Party

in 1938 where the Third Five Year Plan had been belatedly announced. Moved by the threat of an approaching war, the Soviet government had decided to concentrate on investment projects of short periods of gestation and to achieve a greater amount of regional self-sufficiency. This involved a rather radical change in the attitude toward advantages inherent in large size plants. "Gigantomania" was thenceforth viciously attacked. Locationally, the new program required "bringing industry closer to its sources of raw materials and [not "or"] consuming areas." And it is again curious to see how easily throughout the book the traditional Marxian predilection for "bigness" is abandoned, even though from time to time the authors cannot forebear pointing out in mentioning certain plants that they are the biggest in the world (e.g., on pp. 277 and 282). It is even more striking to see how a specific locational program which if followed through to its logical conclusion would completely destroy the economic unity of the country, is immediately elevated to a general theory of location, valid for all times and climes, and even pre-revolutionary Russia is criticized for not building its industry upon the same pattern (p. 135). Theories do change rapidly in Russia and the belief in the existence in Russia of a unified and homogeneous body of economic doctrine that can be regarded as "Marxian" finds little support in Soviet reality.

On the whole, the discussion of general problems in the book is kept on a very superficial level. This is not due to inability or incompetence on the part of the geographers and economists involved. Rather, it is the result of injunctions against free presentation of pertinent data and of the necessity to praise the policies pursued. Whenever locational phenomena are explained, the interpretation runs in most general terms and no complete cost comparisons are given. At best some fragmentary data are presented. Many highly relevant relationships are not mentioned at all. Thus, in discussing the shift of blast furnaces from coal to iron ore, any reference to the declining iron content of Russian ores has been suppressed. The Soviet Government in determining its policies with regard to location of economic activities, of course, had to make from the start basic decisions among various possible alternatives (such as building new railroads versus in-

creasing the number of plants). But these alternatives are never intelligently discussed and the actual policies pursued are presented without explanation as the only correct ones. Only in a very few cases, e. g., that of the disproportionalities between spinning and weaving capacities in the textile industry which are mentioned in passing (p. 311), or of the faulty location of flax plantings (p. 401), mistakes and failures of the government are covertly acknowledged by imputing them to the activities of the "enemies of the people."

Thus, neither the general theoretical framework nor the specific interpretative material contained in the book can claim much significance. Its value lies elsewhere, that is, in the most useful assemblage of basic factual material. But also here distinctions must be made. Wholesale acceptance of what is presented as facts in the book will not do. In particular, those statistical data with regard to industry which are either expressed in value terms or derived from value figures should be taken with the greatest caution. Thus, all data showing total industrial growth must be presumed to be grossly inflated. Similarly, data showing the share in the total of outputs of the individual branches of industry are quite suspect, and a tabulation, for instance, showing the structure of output of machinery-building industry almost surely contains a formidable margin of error (p. 269). In addition, a good many comparisons with other countries or with pre-1917 Russia are misleading. A statement, for instance, implying higher productivity of labor in Soviet weaving as compared with weaving in the United States (p. 311) is in full contradiction even with the results of serious Soviet research on comparative productivities.¹ Fortunately, however, such statements and claims form only a relatively small part of the total factual material presented. The bulk of information contained in the book refers to basic facts of economic geography and in these much more confidence can be placed.

The book gives a formidable mass of information on the physical location of individual industries. A student desiring to know where the Russians mine a certain mineral or where they produce their iron or their glass, their chemicals or their cotton

¹ Cf. P. A. Khromov, *Ocherki ekonomiki tekstil'noy promyshlennosti S.S.S.R.* (Sketches of the Economy of the Textile Industry of the U.S.S.R.), Moscow-Leningrad, 1946, pp. 135, 171, 172.

textiles will not be able to find a better English source for such information. Similarly, the chapter on agriculture contains plentiful and very well-organized material on land utilization by individual crops from wheat and rye down to castor plant and sesame. The vast array of specific facts, which can be rather easily separated from the chaff of questionable theories and misleading or incomplete interpretations, makes the present volume a most useful reference book and an indispensable aid to any student of Soviet economy.

This reference character of the volume has been greatly enhanced by the editorial work performed for the American edition by Professor Harris. What has been done is truly stupendous. The maps contained in the original edition have been enriched by adding a large number of place names; moreover, the total number of maps has been substantially increased by the drafting of new and very useful maps. All maps bear English texts. Four special indices (bibliographical references, persons, plants and animals, and place names) have been added. The American edition contains a glossary of Russian terms, a list of abbreviations, a table of weight and measure equivalents, and a careful explanation of the transliteration system used. Very useful tables containing detailed data on population have been added to the statistical appendix. Most importantly, the maps have been brought into the closest contact with the text by introducing into the latter numerical references to exact positions on pertinent maps. Russian footnote references have been checked and in one case even a wrong page reference to the works of Lenin's has been corrected. This is a model of conscientious and imaginative editing, and it would be picayune to quarrel with some less felicitously phrased biographical notes in the index of persons and ungrateful to complain about the absence of still another index arranged by subjects. Should the Russians decide on a second edition of this volume they would be well advised to incorporate into it a good deal of Professor Harris' editorial additions. This is a rather rare case in which a translation is in every respect preferable to the original. Professor Harris and the American Council of Learned Societies which sponsored the American edition of the book deserve the

gratitude of all those interested in economic developments in Soviet Russia.

ALEXANDER GERSCHENKRON

Harvard University



Planning the Modern City. By Harold MacLean Lewis. New York: John Wiley & Sons, Inc. 2 vol., pp. 224, 284. \$6 each.

This is a thoroughly revised and up-to-date edition of the text by Nelson P. Lewis who contributed to *Regional Plan of New York and Its Environs*. While city planning problems are viewed primarily as engineering problems, the wide erudition and practical experience of both father (author of the first edition) and son (author of this revised edition) places two volumes before the reader which more than any other work known to this reviewer cover the entire range of practical city planning problems. Administrative and social problems receive fair treatment. As an introduction to the field of city planning, this publication stands unmatched.

It is a reflection upon city planning proper rather than upon this presentation, if planning objectives and procedures are made to appear in a somewhat disparate manner. Chapter 3, "The Correction of Mistakes," defines the attitude toward temporary planning measures as well as those of the historical past. City planning appears as a series of routine measures taken in the amelioration of an urban environment that has been allowed to deteriorate in an era of unguided growth. That, indeed, is the task faced by our planners all over the country, whether they go to work as members of the staff of a metropolitan city planning office, or as city engineers in our small towns. The urgency of corrective measures is such that relatively little thought can be given to the development of an integrating principle that might coordinate traffic planning and the organization of the land use pattern, neighborhood planning, slum clearance, housing, and central rehabilitation under some unifying point of view.

Nor does the engineering aspect of the problem lend itself to the development of such principle which would have to be derived from the social objectives to which urban construction must be subservient. Lest we criticize the authors, however, for not having

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done what they never intended to do, let us state again emphatically that we know of no better, no more comprehensive and no more thorough introduction to contemporary practice in city planning.

The chapters devoted to the "communication master plan" are in themselves a masterpiece of clear and penetrating presentation. The chapters on land use planning contain technical references to the manner in which the contemporary city planner copes with a great variety of urban needs, such as recreation, shopping, public administration, education, etc. Special consideration is given to the means of land use control, particularly zoning. If not all aspects of these many problems are adequately treated, it is obviously due to the fact that available information overflows the boundaries of any one text.

A special effort has been made in Part Five to deal with some acute problems of the middle of the 20th century. One chapter is devoted entirely to the airport in the modern city plan: Another one to the planning for motor vehicle traffic. Industrial decentralization and fringe planning are singled out for discussion—not included in the original edition. The discussion of administrative and political problems is based on the practical experience of the authors and serves as a fine introduction to the problems which the city engineer must face in dealing with other officials in municipal government.

If the text has any other limitations than those imposed upon it by its purposes, they consist of the focus of the discussion upon the large metropolitan community. The small-town engineer will have to use his ingenuity in transposing his knowledge of city problems to a different environment where many of these problems take on a different character—where the objectives of city planning are often of a different kind.

SVEND RIEMER

University of Wisconsin



Agricultural Marketing. By Adlowe L. Larson. New York: Prentice-Hall, Inc., 1951. pp. XIV, 519. \$7.00.

The roster of authors who have written an elementary descriptive text on the subject of marketing is long, and now Professor Larson adds his name to the list. This book excels many in its organization of subject matter, it

is well written and adequately illustrated. The author claims that his chief objective in presenting this work is to stimulate thought and induce constructive action toward the solution of current marketing problems.

He apparently hopes to accomplish this purpose by presenting various points of view or impartially stating as many tenable arguments bearing on an issue as possible, without imposing his own opinion. This nicety of balance attained by listing points of advantage and disadvantage characterizes a number of chapters in the book. On page 33, seven different definitions of a market are given and none is complete in itself. Perhaps the intent here is to demonstrate the many-sidedness of the subject of marketing. The author does so, however, at the risk of thoroughly confusing the readers.

Professor Larson makes no claim to originality in theoretical analysis, and there are no new theories expounded, despite the fact that a number of marketing authorities predict a major evolution in market concepts within the next decade. Professor Larson apparently is not concerned about theories of an exclusive nature peculiarly applicable to marketing or about the prospect of forming new bases of consideration for delineating this field of specialization from others. He is content to limit his discourse to that of restating for his readers a clear, concise account of the business of marketing along conventional lines. He accepts, enumerates, and relates the traditional functional, agency, and commodity approaches to the subject with all their limitations without raising questions about the shortcomings of each. Moreover, he appears to uncritically accept the assumption that the functions of production and marketing are so intricately integrated that they are practically indistinguishable for scientific purposes. The best feature of the book, in the opinion of this reviewer, is Part VI wherein problem areas are discussed. Here the writer brings to focus some of the major issues which challenge scholars and tradesmen to resolve them in the best interest of society. With the exception of aberrations, Professor Larson's new text is quite acceptable as a beginner's text; it is teachable, remarkably free from padding, and reasonably well documented.

HENRY H. BAKKEN

University of Wisconsin



Alaskan Group Settlement: The Matanuska Valley Colony. By Kirk H. Stone. Washington: U. S. Dept. of the Interior, Bureau of Land Management. 1950. pp. viii, 95.

Few ventures of the early New Deal were bolder or more controversial than the planned settlement of the Matanuska Valley of southern Alaska. Indeed, no other undertaking of population relocation of that period proportionately involved a greater degree of governmental direction or environmental and social change. The selection of 202 families (903 people) from the states of Michigan, Wisconsin, and Minnesota, their transport together with agricultural and construction equipment to a virtual wilderness, and finally the establishment of a colony with the necessary institutions and facilities to survive and prosper called for much imagination, foresight, and planning. However, fifteen years later, after careful field investigation, the author of this study could report "that the Matanuska Valley Colony has been an effective and generally successful experiment to increase permanent settlement in the territory."

Currently the Valley has a population of 2500 to 3000. One-third of the original colonists still remain as well as over one-half of the replacements that were selected before 1940. All but seventeen percent of the Colony's approximately 13,000 acres which were purchased by the Alaska Rural Rehabilitation Corporation are now in private ownership or under real estate contracts. Agriculture (dairying and garden crops) is the dominant industry, but a number of service occupations are gradually acquiring greater prominence. The Valley now has all of the basic community services including telephone connections, a weekly newspaper, a modern hospital, and daily train service to Anchorage 50 miles away. Although this study is not an intensive sociological survey, the author implies that the population is presently well adjusted to its environment.

As Stone makes clear, the Colony was not established without inefficiency and unnecessary expenditures. Initial planning for the community was hasty and based on inadequate first-hand knowledge; many of the families originally selected lacked suitable

agricultural background or were otherwise unfit; there was poor timing in shipment of material from the States; the original land subdivisions of 40 acres were too small; construction priorities were not always well determined; the administration was frequently too paternalistic; and the failure to keep adequate financial records from the beginning led to much confusion and community controversy.

Today the Matanuska Project takes on far more significance than merely as an example of New Deal planning. With Alaska's increasing military and economic importance it has direct bearing on any further settlement we may wish to promote in that Territory. Likewise, the experiment should contribute much that is useful toward establishment and conduct of Point Four programs. Mr. Stone has, therefore, produced a timely report. We can only hope that the lessons learned from this colonizing venture will be heeded elsewhere.

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City Planning. A Selection of Readings in its Theory and Practice. Edited by Theodore Caplow. Minneapolis: Burgess Publishing Co., 1950. pp. 226. (lithoprinted) \$3.75.

These readings have been selected by the faculty of the interdepartmental course in city planning at the University of Minnesota: a sociologist as editor; two political scientists (Anderson, Christensen); two economists (Vaile, Filipetti); and an architect (Jones). They first present readings on "The Nature of Urban Problems:" extracts from Mumford and Bauer, Rumney's analysis of the costs of slums in Newark, and a chronicle from *The New Yorker* on the water shortage of 1950.

On "The Development of American Planning" there is an extract from Robert Walker's book tracing the history of the city planning movement and a 27-page essay—written especially for this volume by Professor Anderson—putting planning in its setting in local government. Eight readings on "Housing" include a collection of statistics on "The People and Their Resources" by Professor

Vaile; short extracts from writings by Edith Elmer Wood, Dorothy Rosenman and Miles Colean; and a report of a survey of attitudes toward home ownership in Minneapolis by Professor Caplow.

On "The Technics of Planning" there are an extract from Russell V. Black's often-reprinted monograph, *Planning for the Small American City* (traversing some of the same ground as Anderson's essay); an exposition by Clarence Perry of "The Neighborhood Unit Formula;" the statement of principles of neighborhood planning by the Committee on the Hygiene of Housing of the American Public Health Association; and short pieces on express highway planning and on educational and recreational services. Finally, as "Planning Documents" there are presented the Tennessee planning laws of a decade, a summary of the Federal Housing Act of 1949, and a prospectus of an urban redevelopment scheme in Minneapolis.

It is now fifteen years since this reviewer was visiting lecturer in a pioneer interdepartmental course conducted by five of the eminent compilers of these readings, so there has been ample opportunity to test this collection in the classroom before reproducing it, even in lithoprint. Perhaps it is unwise to judge its effectiveness without studying the syllabus with which it is used. Rumney's study is a good specimen of the series started by Father Navin in Cleveland twenty years ago and used effectively for propaganda by Ernest Bohn. Undoubtedly it is presented so that students will find its central flaw: most of the costs of the slums are the social costs of poverty and will follow the slum-dweller to the other parts of town to which he is displaced by rehousing. Similarly, one hopes that the students learn of the criticisms of Perry's neighborhood theory by thoughtful planners who have tried earnestly to apply it (Mitchell, Isaacs, et al).

Perhaps teaching experience has shown that students who can grasp Mumford or Bauer nevertheless need an essay on local government that its author says "may seem to some readers unduly elementary." Professor Anderson seems more than half convinced of the main thesis of Walker's book—that planners become effective only as they are accepted as advisers to political officers, but his statements are not as positive as the unquoted parts of Walker. The elementary questions and answers from the United States

Housing Authority's popular pamphlet, written by Edith Elmer Wood, seem out of key.

Would not *Action for Cities* (now in its eighth printing and translated into German and Japanese) serve as an excellent outline for an interdepartmental course? Are not both Mumford's *Culture of Cities* and Rosenman's *A Million Homes a Year* interdisciplinary, each at its own level, and would not the student gain by the filtering of ideas through the minds of one or two such authors instead of reading so many snippets? If shorter statements are preferred, the collection in *Building the Future City* (*The Annals*, Vol. 242) two of which are reprinted here, are at least all pitched at the same level and traverse a remarkably broad area. But I suppose, ultimately, every man has to make his own set of readings.

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Water Resources Law. The Report of the President's Water Resources Policy Commission, Vol. 3. Washington, D. C.: Government Printing Office, 1950. pp. 777. \$2.25.

The third and last volume of the President's Water Resources Policy Commission's Report is the best description yet of federal water resource legislation and court and administrative decisions interpreting it. Assuming that Congress and the states can agree on some of the hot issues of policy involved, this volume should be of great assistance in the orderly codification of those policies.

The first two volumes have been reviewed previously in this *Journal*.¹ The third volume was presaged and summarized in chapter 19 of volume 1. But the meat put on the bones of that summary by volume 3 makes this an essential reference book for anyone interested in the history of federal water policy or in comparative water legislation.

Like the first two volumes of the Report this third volume is a team product, written

¹ Raymond J. Penn, "A Water Policy for the American People: a Commentary," *Land Economics*, February 1951, 76-79; Martin G. Glaeser, "II—A Water Policy for the American People; a Commentary," *Land Economics*, May 1951, pp. 169-172; and Henry C. Hart, "Ten Rivers in America's Future" (Book Review) *Land Economics*, May 1951, pp. 187-188.

under great time pressure. As in the case of the other two volumes some unevenness of style and analysis resulted. Lawyers from Bonneville Power Administration, Bureau of Reclamation, Federal Power Commission, Department of Agriculture, Department of the Army and from the commission's own staff collaborated. In the main these lawyers have restricted themselves to a comprehensive description of the federal statutory and case law relating to: (1) Navigation (water-borne transportation; improvement and protection of navigable waters and Authorization of projects). (2) Flood control. (3) Irrigation (basic doctrine of water rights history of reclamation legislation; preparing, financing, and operating projects). (4) Power and multiple-purpose projects (non-federal and federal development; and four special projects—Boulder Canyon, Fort Peck, Bonneville, and TVA). (5) Other Public Purposes (drainage, water supply, fish and wildlife preservation, recreation, pollution, etc.). (6) Related Land Uses (California Debris Commission; forest lands, soil conservation; Taylor grazing, etc.). (7) Growth of the Idea of Comprehensive Development before and after World War I. (8) A comparison, on a Functional Basis, of the Powers of the Army Engineers, Bureau of Reclamation Federal Power Commission and Other Agencies in Preparing, Developing, Evaluating, Building and Operating Projects.

Often on reading about this statute or that one, the reader wonders, "Well, how did it work out, what actually happened?" In the main the answer is not to be found in volume 3. The authors content themselves with the paper rules laid down by the Congress, the courts and, to a more limited extent, administrative agencies.² Nevertheless, the legislative history of the 160-acre and anti-speculation limitations for reclamation projects; the description of the relatively recent federal pollution statute, with overtures of tougher pollution regulation to come; and the growth of the idea of multiple-purpose planning (including the effect of presidential vetoes) all make interesting, if not exciting, reading. Perhaps most interesting of all is the statutory history of the Army Engineers.

The title to this volume might better have been "*Federal Water Resources Law*." State

² There are a fair number of agency rulings and directives gleaned from files, some of which were previously relatively inaccessible.

doctrines of water law receive attention only so far as they impinge on existing federal regulations. Wells A. Hutchins contributed in an appendix a concentrated and expert summary of major water law doctrines for the seventeen western states, but there is no systematic attempt to relate all of these doctrines to existing or contemplated federal controls. The varying applications of the riparian and other water law doctrines of the remaining thirty-one states receive scant attention.

The book also contains an adequate, though somewhat pedestrian, summary of the constitutional powers under which the federal government acts when regulating water resources. And it includes the leading cases rationalizing the exercise of these powers. Too often quotations are lifted from the cases without analysis of the precise issue before the court. But the important case references are all there and the reader can read the cases and make his own analysis. Two of these constitutional law cases should be of particular interest to readers of this journal. One, the case of the *United States v. Gerlach Live Stock Co.*,³ involved compensation for state-created riparian rights destroyed by the Friant Dam of the Central Valley project. This case projects into the arena of water use regulation the constitutional power to spend for the general welfare. Relying on the triple A case⁴ and *Helvering v. Davis*⁵ the court said:

"Thus the power of Congress to promote the general welfare through large-scale projects for reclamation, irrigation, or other internal improvements, is now as clear and ample as its power to accomplish the same results indirectly through resort to strained interpretation of the power over navigation."

This passing comment will probably become increasingly important. Government lawyers attempting to sustain water project legislation will now be arguing the power to spend for the general welfare, along with the commerce power, perhaps the war power, and the power to dispose of federally-owned property.

The second case⁶ had been decided by the West Virginia court but not by the United

³ 339 U.S. 725, 738 (1950).

⁴ *U. S. v. Butler*, 297 U.S. 1.64066 (1936).

⁵ 301 U.S. 619, 640 (1937).

⁶ *West Virginia ex rel. Dyer v. Sims*, 341 U.S. 22, 71 Sup. Ct. 557 (1951).

States Supreme Court when the volume being reviewed went to press. The West Virginia court had held invalid West Virginia's participation in the eight-state Ohio River system anti-pollution compact. This decision was based on a finding that there was under the state constitution both a violation of the debt limitation clause and an invalid delegation of power to other states. The United States Supreme Court reversed, disagreeing with the West Virginia court's construction of its own constitution. West Virginia was held bound to the compact. The court found in itself the supreme power to settle disputes between states and hence power to interpret and determine the validity of compacts attempting by mutual agreement to adjust interstate conflicts of interest. Justice Reed in a concurring opinion took a bolder view:⁷

"Since the Constitution provided the compact for adjusting interstate relations, compacts may be enforced despite otherwise valid state restrictions on state action."

In any event the Court has once again, this time in an important pollution case, barred

the way to unilateral withdrawal by a state from an interstate compact. The case obviously strengthens future regional water use and pollution compacts. The authors were correct in emphasizing its significance.

They were also correct in the way they arranged their report. Some of the legal rules, statutory and court made, are summarized two and three and more times as one goes through the book, but this simply makes clearer, from differing points of view, the contrasts, the overlappings, and the gaps. That is the reason why this book is valuable not only to the researcher and the academic man, but also to the codifier of future water resource policy. It should also be of great aid to some future Hibbard who ambitiously undertakes to write a needed "History of the Public Water Policies." Its value to the many who will want to use it as a rich reference source is impaired by the lack of an index. This deficiency is, however, partly remedied by an excellent analytical table of contents and by a full "Table of Citations."

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⁷ 71 Sup. Ct. 557, 563.

Reprint by Request

Because so many requests have been received for copies of this article by Sir Raymond Unwin that the supply is exhausted, and because it deals with a subject in which there is current interest in the area of urban redevelopment and density problems, the article is reprinted herewith in full. The article originally appeared in this *Journal* February 1941. (editor)

Land Values in Relation to Planning and Housing in the United States

By SIR RAYMOND UNWIN*

DURING the nineteenth century, conditions in the United States were so exceptional that they tended to create a conception of land values that was more fictitious than real. In a relatively new and unoccupied country, where rapid growth of population is taking place both by natural increase and by immigration and where industrial and commercial development is on an extensive scale, the influence of such forces tends to be associated too directly with the value of land, giving it an undue appearance of reality. This may lead to very serious mistakes when circumstances change. Land policies and methods of taxation, which may have had some justification when capital values of extensive areas of fortunately situated land were expected to increase annually in greater amounts than the incomes yielded, may become quite unsuitable when conditions are reversed, and the annual income (if there is any) may surpass any reasonable expectation of yearly capital appreciation. Such change of conditions has marked the recent years of the twentieth century, in which the cessation of increase in population through immigration and a rapid diminu-

tion in the rate of natural increase have taken place.

So long as the supply of butter is ample, each possessor of a slice of bread feels fairly sure of his share, and is not too much concerned with the thickness which his neighbor spreads on his slice. When, however, the supply runs short, all are interested in a fairly even distribution; if too much is spread on one man's slice, other slices will get none. That is exactly the position in regard to land value today. The total in sight is becoming more limited; and if too much is spread on a few plots of land, many other plots will inevitably be deprived of a share. This relative scarcity in the supply of value has therefore given fresh importance to the relation of density of building to concentration of value, and the extent to which high density tends to locate the total available on a few favored plots, at the expense of the general body of plot owners.

One or two examples will illustrate the situation. The first may be taken from Chicago, where records of the change of use and expansion of areas for different uses have been kept since 1923, when the complete zoning ordinance went into force. The population of the central area of Chicago has been diminishing for many years. The Census of 1930

* *Editorial Note.* This manuscript is the last work from the pen of the late Sir Raymond Unwin, the eminent British city planner. It has been made available to the *Journal* by Lady Unwin through Mr. Harold Buttenheim, Editor of the *American City*, Mr. Lawrence Orton of the New York City Planning Commission, and Professor Carl Feiss of the School of Architecture of Columbia University. With the permission of Lady Unwin, the manuscript has been edited slightly, primarily for purposes of clarification. Since unfortunately his source material is not available, the

footnotes are entirely editorial additions, designed to aid the reader by indicating some of the probable sources of the data used by Sir Raymond. The editors particularly wish to thank Mr. Morris Hirsh for his assistance in checking computations and gathering additional figures. The advice and counsel of Mr. Walter H. Blucher, Executive Director of the American Society of Planning Officials, in the editorial revision are also gratefully acknowledged.

revealed an area of nearly 50 square miles¹ over which such decrease had occurred. The estimated population, based on a careful survey made in 1936, showed this area to have increased greatly.² Of this central area, 44 square miles are now classed as definitely blighted,³ and they are entailing a huge loss to the city. The total developed area of the city is 157.77 square miles,⁴ and of the suburbs outside which constitute an integral part of the city geographically, 76.50 square miles,⁵ making a total of 234.27 square miles.

If the area occupied by commercial buildings in the city itself in 1923 be compared with the total area so occupied in city and suburbs in 1936, the result is an increase of 3.74 square miles in the 13 years, or .3 square mile per year.⁶ If this total rate of growth could all in future be concentrated on the central area, it would take 146 years of such growth to redeem the 44 square miles of blighted area with commercial use. Now it is commercial use alone which yields the very high land values in central areas. If the actual increase in commercially used land within the city limits only had been taken, the figure would have been less than .2 of a square mile during the whole 13 years and the period required to cover the 44 square miles would exceed 1,500 years!

In view of the rapid rate at which the present value of a deferred realization of increment diminishes as the period is extended, what would the expectation of increment from commercial use over this blighted area be worth today, even if the whole of the future

commercial development of the larger area could be located within it? Obviously, the prospect over three-fourths of the area has no present value.

How then would the picture look if residential use were adopted? In recent years the increase of population in Chicago has been slight; but from 1911 to 1930 the increase averaged approximately 60,000 per annum, requiring about 15,000 dwelling units. On the assumption that recent decentralizing trends could be reversed, the rate of increase recovered, and the whole concentrated in the blighted area, then the number of years required to realize value from residential use over the whole 44 square miles of so-called blighted area would obviously depend on the density adopted. If 100 families to the acre were copied from some New York schemes, 187 years would be required to fill the 44 square miles of blighted area when population was increasing at the rate of 60,000 and dwelling units at the rate of 15,000 per annum. Lesser densities would, of course, shorten the period as follows:

Density per Acre	Absorption Period
50 families.	93.5 years
25 families.	46.7 years
10 families.	18.7 years

If the highest density were adopted, the owners of the last part of the area to be covered would have to wait 187 years before any actual increment accruing from building would be received from their land. If the lowest density were adopted, they would all realize it within 18.7 years. This is one very important fact which land owners do well to consider, as would also the citizens of American towns having blighted areas, for whom the speed at which they can be redeemed is important. The question of the relative value per family which different densities would yield will be considered in connection with the situation in New York.

Meantime the effect of density in relation to commercial buildings may be noted. Though not so simple to calculate, this is equally decisive in fixing the period required to bring increment value to the whole of an area. An effective demand for a certain floor space for office, warehouse, and store purposes will occupy less and less land area in proportion as the business premises are

¹ Cited by Hugh E. Young of the Chicago Plan Commission in "Need for Some Practical Method of Re-zoning Urban Areas," a paper presented at the meeting of the City Planning Division, American Society of Civil Engineers, January 21, 1937 (mimeo.), Map 106. This map, however, shows the area of population decrease between 1920 and 1930 to be somewhat smaller than the 51 square miles referred to in footnote 3 below.

² This was true even in 1934 (Young, *op. cit.*, Map 107).

³ "... in Chicago, ... we have a blighted district. ... It is the back yard of our lake front development. ... This [back yard] comprises a total area of fifty-one square miles, of which forty-four square miles are blighted territory." (Young, *op. cit.*, p. 11.)

⁴ That is, in 1936 within the city limits (Young, *op. cit.*, p. 9).

⁵ Young, *op. cit.*, p. 9 refers to this as the "developed residential [italics supplied] areas beyond the city limits" in 1936. The suburbs included are those "that are integrally a part of Chicago even though located outside the corporate limits."

⁶ Young, *op. cit.*, Drawing No. 101.

piled in stories, one above the other, instead of being placed side by side. If 40 stories are adopted in place of 4, for example, approximately 1/10 only of the area of land will benefit by realization of increment. The general adoption of higher buildings, coinciding with the diminishing rate of general expansion, must undoubtedly share responsibility for the prevalence of blighted areas around the business centers of many American towns. But for that increase in height, the commercial areas would have expanded more rapidly, and more nearly kept pace with the flight of population from the congested centers to more commodious sites on the outskirts.

If the significance of this change in conditions is to be understood, the nature of land values must be recalled. Land is valued for two main classes of use: first, for the production of useful or enjoyable produce, whether food, game, raw materials, or precious metals; second, as affording sites for dwellings, industries, and commercial or social activities generally. The value in both classes consists in what folk are willing to pay for the privilege of using the land. Thus human psychology plays a large part in determining the extent of value which each kind of use may yield. There are, however, more tangible factors which may limit the value. In the first class, a limit is set by the extent of produce which any land will yield over and above the costs of production, including maintenance of the producers. This class of value attaching mainly to rural land will not much affect the present inquiry, except as fixing an approximate datum line of value per acre from which increased value for other purposes can be reckoned. Values in the second class attach mainly to urban land and are usually far higher than those in the first class. These values depend on the extent of population and of the activities, on the importance of being near the center of them, and on the possible profit to be made by occupying the more favorably placed sites in preference to others. Here also human psychology plays an important part; but, as in the case of rural land, certain more tangible factors are fixing limits which must here be considered.

Before dealing with them, however, the important fact must first be emphasized that in both classes the real values only exist if, and so long as, the land is used, and the buildings on it are occupied for the respective purposes which create those values. Where land is

not used or where buildings are not occupied, no actual value is being created and no real land value exists. There will, of course, be a hope of future value in the heart of the owner; there may even be an expectation of such value which seems plausible to his mind; but until realized by actual occupation and use, both values are speculative, not real. The hopes or expectations of the owners may indeed be shared more or less by others, and a market for the land based upon them may arise. This, however, does not alter the fact that no real value exists; that what is sold and bought in such market is merely the chance to benefit by a hoped-for value, if it is ever realized. The value is of the same nature as the increase in salary which a clerk hopes to receive next year, and on which he may raise a loan if he can find anyone who fully shares his optimism.

This aspect of values needs to be stressed, because the very rapid development of population and urban centers during the last century conferred an unreal appearance of actuality on such speculative values. By constantly enlarging the limits of possible realization, moreover, such rapid progress tended to hide the existence of these limits; and where the increment in speculative capital value approached or exceeded annually the income realizable from use, a tendency was created to prize the unreal hope or expectation more highly than the real and realized value. These tendencies have been carried over into the present time, when conditions as to population have become nearly stable; when the increase both in total and in urban population has become both a small and a diminishing factor. No longer is there any promise of unmeasured expansion; indeed, both the area over which building value is likely to extend and the total amount of increment which there is now any real justification to expect have been very drastically limited by the change.

Conditions in New York may well be examined as a second example of the character of land values. Thanks to the survey made by the Mayor's Committee on City Planning,⁷ information on a number of aspects of the problem of land values is available, especially as regards the residential use of land.

⁷ *Progress Report*, Mayor's Committee on City Planning in Cooperation with the Works Progress Administration, New York City, June, 1936.

If the total of dwelling units for New York in 1939 is given as 1,890,618⁸ and the population as 7,380,259,⁹ we get one dwelling for each 3.9 inhabitants. From the rental statistics it would seem that the average rent per family on Manhattan is about \$355.62 per annum, whereas for the whole of New York it is \$442.80¹⁰. This difference arises from the much larger proportion of rents between \$30 and \$60 per month in New York and of those under \$20 per month on Manhattan.¹¹ What precise proportion of these average rents may fairly be taken as representing ground rent must be conjecture; but if $\frac{1}{2}$ be taken as the proportion for New York as a whole, this gives \$88.56 which would represent about $\frac{1}{4}$ of the Manhattan rents. Use of this figure of \$88.56 as a rough approximation together with the number of dwellings given (1,890,618) would yield a total annual ground rent of \$167,319,693. If this be capitalized at 4% on the basis of 25-years' purchase, the capital value would be \$4,068,513,150, or 79 cents per square foot over the gross area.¹²

The land of New York is assessed for taxation at \$7,076,271,087,¹³ which is \$2,893,278,762 above the figure reached for residential land,¹⁴ an amount which may not unreasonably be taken to represent the assessment for the much smaller area of relatively more highly priced land devoted to commercial and other non-residential uses. If so, it would show a corresponding average of \$3.28 per square foot for such uses. No doubt detailed examination of the data on

which these broad figures are based would yield more exact results. These approximations, however, will suffice to indicate that the total available land value for an average family is ascertainable, and consequently the total fresh value which there is sound reason to expect will be yielded by an increase in population. The areas of land, used and vacant, in New York as a whole, and in Manhattan, are as follows:¹⁵

Use	New York (Square Miles)	Manhattan (Square Miles)
Residential.	185.75	13.90
Non-Residential.	31.63	5.08
Parks, cemeteries.	31.01	3.16
Vacant land.	61.71	0.06
Total.	310.10	22.20

The population in New York increased from 1920 to 1930 by 131,040 persons per annum.¹⁶ Between 1930 and 1938 the estimated increase was 70,168 persons per annum.¹⁷ How long a time at this rate of increase would be needed to occupy the 61.71 square miles of vacant land and thus enable building value to be realized upon it; and how long if the 1920-30 rate of increase could be restored—a rather unlikely contingency? Again all will depend on the density:

Density of Families per Acre	Years Required at an Annual Popu- lation Increase of 131,040	Years Required at an Annual Popu- lation Increase of 70,168*
12	14.3	25.25
50	58.9	105.80
100	117.8	211.60

The actual annual population increase for 1930-40 was noted below (n. 17) as 44,981 persons. If that figure is used, the number of years required to absorb the vacant land in New York at 12, 50, and 100 families per acre will be 41.2, 171.8 and 343.5 respectively.

If then the increase of population in New York maintains its present rate and if it be housed at the density now proposed for a

¹⁵ These data are substantially the same as those derived from application of the percentages of land in different uses to the total area of New York City and Manhattan (*Progress Report*, *op. cit.*, p. 34).

¹⁶ U. S. Census.

¹⁷ Estimate by the New York City Department of Health, cited by Hoyt and Badgley, *op. cit.*, p. 166.

Since this was written the data from the 1940 Census show the actual increase for the decade just ended to have been only 44,981 persons per year.

⁸ Report, State Superintendent of Housing, Albany, N. Y., January, 1940, p. 30.

⁹ U. S. Census of 1940.

¹⁰ The source of these data on average rents for Manhattan and New York has not been discovered.

¹¹ "... predominant rents in six out of every ten blocks of the city were between \$30 and \$60 per family per month ... Only 8.7 per cent of the people pay less than \$19 rent, and even fewer pay more than \$60." (*Progress Report*, *op. cit.*, p. 40.)

¹² "Here [Manhattan] in the heart of the city, we find 21 per cent paying under \$19, and nearly 19 per cent able to afford over \$60." (*Ibid.*)

¹³ These figures are very close to an estimate, based upon data available in January, 1941 from the 1940 Census, which shows a capital value of \$4,182,992,325 and a value per square foot of 81 cents which is derived by dividing the 185.75 square miles of residential area (see above) into the total capital value.

¹⁴ As of 1938. See Homer Hoyt and L. Durward Badgley, *The Housing Demand of Workers in Manhattan*. (Report to the Federal Housing Administration, 1939), p. 143.

¹⁵ This figure results from the subtraction of the computed value of residential land from the total assessed value for all land.

certain housing scheme, the majority of the owners of vacant land within the city must wait 100 years and many of them 200 years before they will realize any value from use of the site for building purposes. If these facts are even approximately true and if present views on prices and densities continue, the conclusion seems to follow that the majority of this land has no real value whatever today and is unlikely to have any for generations to come!

Meantime the owners, on the strength of a gamble with odds of 100 or 200 to 1 against their sites being selected, are holding up their land prices which compel those very high densities which in turn increase the odds against them! By reducing the density to 50 dwellings to the acre the odds would be halved; by reducing it to 12, they would approach the kind of odds which gamblers are willing to face on the race course. To say that if present methods continue such land is really worthless, is indeed an understatement; for it is saddled with considerable yearly liability for taxes. If the annual tax payment is also to continue at present levels it would be interesting to calculate the ultimate loss on those acres which are the last to be occupied by dwellings. I have no figures for New York as to the extent to which the so-called tax structure is dependent on values not yet realized. I hope the taxing authorities may be able to tell us what is the total assessment on the approximately 61 square miles of vacant land in the city.¹⁸

There are, however, some remarkable figures for Chicago, showing what vast sums of purely fictitious value have formed parts of the tax structure there. In 1915 the total assessment was in round figures \$2,000,000,000; by 1926 it had risen to \$5,000,000,000; by 1933 the total had fallen to \$2,000,000,000.¹⁹ The whole of the taxes imposed during the intervening years on the \$3,000,000,000 of

increased assessment, or any part of it, must now be recognized as having been assessed on a fictitious capital value which never did exist and quite likely never will. Taxes like other charges, cannot be collected from that which has no existence. However much may be assessed on fictitious values, that part of the assessment which is paid—for the default is large—all comes from the actual realized values for present use, and in fact falls on the actual income value of the property, or on other income which the owner may choose to tap for the purpose. Such fictitious values, so far from strengthening the tax structure, steadily tend to undermine it.

The case of Manhattan presents an aggravated condition not only because there is no increase of population to justify hope for increase in land value, but also because since 1910 the population has been falling rapidly, until now nearly 30% of the numbers once living there have already deserted it for more attractive dwelling places. As regards residential use, therefore, Manhattan is faced, not like New York as a whole with the problem of using to the best advantage a limited increase of population, but with that of creating conditions so attractive that the decrease may be arrested, and possibly some small share of the future increase attracted there. True, there is little vacant land on the island; but a recent survey has revealed that there are over four square miles of decayed areas²⁰ which call for redevelopment for housing purposes. The conditions now attached to these areas on the master plan allow a density of about 77 families to the acre which, if applied to the whole area, would house at 3.74 persons per family a population of 734,700 people.

Figures such as those used for Chicago are not available to show how much, if at all, the area occupied by buildings for purposes other than housing on Manhattan is increasing and could reasonably be expected to take up some of the land vacated by the emigrating population. In view of the recent development of very high business buildings, there seems no reason to expect much spread of this area, particularly as some at least of the city's business may be expected to follow the migrated population.

²⁰ This figure appears to agree approximately with the estimated total of the areas which have been demarcated by the New York Planning Commission as ripe for clearance, replanning, and rehousing.

¹⁸ In *Premature Subdivision and Its Consequences* (Albany: Division of State Planning, 1938) at p. 88 Philip Cornick gives the assessed value of vacant land in New York City as \$622,178,628. The area represented in that figure is not given but, if present vacant area is assumed (61.71 square miles), its application to the assessed value yields a value of 56 cents per square foot. Obviously, this is high, if 79 cents per square foot is the average value over the gross area of New York (see p. 283 above), and would indicate the inclusion of considerable fictitious value.

¹⁹ These are the "aggregate values of the 211 square miles of land in the 1933 corporate limits of Chicago" as given by Homer Hoyt, *One Hundred Years of Land Values in Chicago* (Chicago: University of Chicago Press, 1933), Table LXXX, p. 470.

In regard to the return to be expected from the development of land for residential purposes, only the average sum per family has so far been considered. What a family can and will afford in rent for the site of its dwelling must be limited by its income. Those living in dwellings renting at less than \$20 per month will obviously be most strictly limited by their income, as there will be little margin in most cases above what is needed for absolute necessities. Those with higher incomes will be in a better position to consider what they get from their payment in ground rent, a consideration very prominent in people's minds when purchasing any other commodity. Although it is not claimed that families, on average, will pay for the site of their dwellings pro rata with the area of which they have the enjoyment, the contrary suggestion that, on average, they will pay the same rent per dwelling however small the area which they can use or enjoy is no more reasonable. That area is reduced very rapidly with increasing density, because the extra dwellings occupy a greater proportion of each acre of land and usually call for additional road space, which again reduces the total free ground that has to be divided among the increased number of families.

If two-story houses be taken to occupy 48 square yards of ground, and apartments 90 square yards; if, further, an allowance for roads and public access paths be made of 54 square yards per house and 66 for each ground floor flat, irrespective of the number of stories, the following table will give the amount of free land per family which is available for purposes of amenity and recreation:

No. to the Acre	No. of Stories	Free Land per Family (Square Yards)
Single-family houses		
12	2	300
20	2	140
Apartments		
40	4	82
60	5	50
120	10	25
120	6	14.33

From this comparison of what is obtained at different densities, the contention that the return on land can be assessed at a fixed sum per family, regardless of the density, is surely as absurd as it would be to expect that the

same price per acre or square foot for any given land can be expected or realized whatever the density that may be fixed. Somewhere in between these two unreasonable extremes will lie the truth; this means that reduced density may be relied upon to yield a higher total of value to the owners of land generally, but a lower sum per square foot than the fortunate owners of a few plots might receive if all the available developments could by means of high density be concentrated on a small area. Consequently low density must mean for the city a higher total of land value, and a more stable tax basis, whereas high density reduces the total land value and greatly increases the degree of uncertainty as to tax revenues.

From the point of view of the whole body of land owners and of the city, the early realization of value over larger areas of land and the more rapid redemption of blighted areas, which a lower density would promote, would be an adequate compensation for a considerable reduction in price per square foot. From the point of view of the tenants or occupants, a reduction in price, relatively much less than the reduction in density, would suffice to give them a much better, larger, and more attractive site and setting for their dwellings at so small an extra cost as to be well worth while paying. Costs of development per acre fall rapidly with reduced density; often considerably more rapidly than the reduction would indicate, whereas, as we have seen, the area available per family increases also in a ratio much more rapid than the rate of reduction. From the occupant's point of view, there is consequently a very rapid increase in the value of what he gets for his rent with reducing density, and this makes a somewhat higher payment per family well worth while. From the owner's point of view the increased area on which value is realized, a modest increase in the amount received per family, and in the total receivable together with the relatively reduced costs of development, bring an advantage which is of special importance at a time when the total available increase in population is rapidly diminishing and, unless some change takes place, will at no very distant date come to an end.

Where one-family dwellings, whether single or row houses, are concerned, the increased cost of development per acre, with higher density, and the increased proportion of land

obliterated by buildings and roadways, result in a very rapid diminution of the area of free land available per family. Where increased density is obtained by adding to the number of stories, that is, by piling more families above one another on the same ground, there is a seeming avoidance of part of the increased costs of development. This avoidance is, however, seeming rather than real, and largely consists in shifting the cost from those responsible for the development to the broad shoulders of the public. High density of occupancy throws greater demand on all streets and services, to an extent not easily measured or allocated, but very substantial.

One aspect of the matter, however, can be quantitatively stated. A certain space per 1,000 persons is regarded as necessary for recreation in urban areas. The smallest standard generally regarded as satisfactory calls for 7 acres of space per 1,000 persons, that is, 33.88 square yards per person, or 127 yards per family of the size of 3.74 persons here taken. The table already given (on p. 7) shows that with 12 houses to the acre, 300 yards per family are available; so that the 7 acres per 1,000 for recreation ground could be taken and yet leave 173 yards available for private enjoyment by each family. In the higher densities, however, no such provision could be made, and additional land must be found from some source for recreation space. In the case of the density of 100 families to the acre proposed for certain housing schemes, to comply with the standard, 12,700 square yards or 2.62 acres must be provided for every acre used for building. If this land is to be reasonably accessible, it will have to be bought in the neighborhood, at prices based largely on the expectation that 100 families to the acre could be housed on it. For every acre thus built upon, therefore, there should be added to the cost the price of another 2.62 acres to be acquired for recreation space. Where high densities are permitted, this cost usually falls on the public, through its parks department.

In this country, there is more experience in urban conditions of high density than of low, especially for the low income-groups. In England, on the other hand, there is ample

experience of both high and low densities for such dwellings. The whole municipal housing scheme there affords a notable example. Of the 1,150,000 dwellings built by local authorities since 1919, about 1,000,000 have been built at an average density of 12 to the acre. The larger land owners were able to appreciate the value of realizing increment on a larger area, and often accepted a lower price per acre in view of the restriction. I should estimate the average price paid at about £275 per acre. The agricultural value of the land might average £50 per acre, leaving an increment of £225. Supposing double the density had been adopted, a somewhat higher price would certainly have been asked in some cases; but over the whole there would have been no great change, in view of the compulsory purchase powers possessed by the local authorities. Assuming the same price, the owners would have lost half their increment; the tenants would have lost two-thirds of their gardens or recreation space; and, because of the higher cost of development at double density, they would probably not have saved more than 10 or 12 cents per month in rent—a saving which would have been dearly bought by the loss of the garden or recreation land. Moreover, if the 100% increase in density had been accompanied by a 42% increase in land price, the tenants would have had to pay the same rent for the smaller area while the owners would still have received a greatly reduced total of land value.

From the above considerations and facts, there would seem to be urgent reason for the citizens of New York and of other American cities, as well as for the owners of land, to consider whether they would not all be far better off if they adopted a greatly reduced density of development accompanied by a reduced price per square foot of land, which, realized on a much larger area, would yield a greater total of value to owners, and would redeem blighted areas, not only at a greater speed, but in a manner which, because of the additional amenities and greater opportunities for recreation, would be much more likely to arrest the drift of population from the areas and secure their permanent occupation.

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